

Introduction

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The *Tax Guide* is designed to give the reader an overview of the tax structure of both state and local governments of North Carolina. In the *Guide* the reader will find a concise summary of North Carolina tax laws and pertinent statistics, including the growth and distribution of tax collections and a comparison of tax burdens. Further, whenever possible, comparisons of tax laws governing specific taxes in North Carolina with those of other states are presented.

The *Tax Guide* consists of seven sections. Part I is the Introduction. The overall scope of the *Guide* is discussed in this section along with an explanation of two important concepts--tax elasticity and tax burden.

Summaries of the tax laws governing North Carolina's General Fund, Highway Fund, Highway Trust Fund, and local government taxes follow in Parts II, III, IV and V. Also included in these sections is a brief history of individual tax collections, statement of the tax calendar, measurement of tax elasticity, and whenever possible, compare the rate and base of each tax with those of other states.

A summary of the tax legislation that was enacted since the publication of the last *Guide* is presented in Part VI. This summary includes the action of the 1996, 1997, 1998 and 1999 Sessions of the General Assembly. A brief summary of the legal changes affecting each tax along with an estimate of their fiscal impact is given.

In the last section, Part VII, an analysis is given of the total state and local tax burden in North Carolina in comparison to those of other states. Tax burdens are evaluated on a per capita and percentage of personal income basis. Special emphasis is made to compare North Carolina with the southern states and the eleven most populated states. Further, the relative distribution of taxes is presented.

TWO TAX CONCEPTS: TAX ELASTICITY AND TAX BURDEN

In order to fully comprehend the impact a tax has on economic behavior, two concepts must be understood: tax elasticity and tax burden. Tax elasticity is a measurement of the revenue productivity of a tax. That is, it measures the responsiveness of changes in tax collections to changes in economic conditions. Tax burden measures the impact of a tax on the purchasing power of an individual or a business. An understanding of tax burden is important in evaluating who pays a tax, how much is paid, and in comparing tax efforts among different states.

Tax Elasticity. Growth in the level of specific tax collections is influenced by many factors. For instance, sales tax collections are influenced by retail sales, individual income tax collections by wage and salary disbursements and the level in employment, and corporate income tax collections by corporate profits. A key variable that influences most tax collections, either directly or indirectly, is personal income. A growth in personal income will cause retail sales to increase and is usually associated with a rise in corporate profits.

To measure the elasticity of a tax, changes in tax collections are related to changes in personal income. The statistic personal income is used as the key determining variable for two reasons: first, it is a widely-recognized and understood statistic; and second, most tax collections are directly, or at least indirectly, influenced by it. By relating the growth of tax collections to one variable--personal income--uniform comparisons can be drawn. Personal income can increase for several reasons. First, purchasing power can increase (real growth); second, dollar income can increase while purchasing power remains the same (inflation); and third, both events can occur simultaneously.

Tax elasticity measures the responsiveness of an increase or decrease in tax collections to a given increase or decrease in the level of personal income. Specifically, it is measured by the ratio of the percent change in tax collections divided by the percent change in gross state personal income. For example, if gross state personal income increases at an average annual rate of 10% while individual income tax collections increase at an annual average rate of 12%, the tax elasticity is determined as follows:

$$\frac{\text{Average Annual Percent Change in Tax Collections}}{\text{Average Annual Percent Change in Gross State Personal Income}} = \frac{12}{10} = 1.20$$

For the purpose of this *Guide*, a tax will be considered income elastic (highly responsive to changes in gross state personal income) if the tax elasticity as measured by this calculation is equal to or greater than 1.10 (as in the example above), moderately elastic if it is between 0.90 and 1.09, and inelastic (relatively unresponsive) if it is less than 0.90. All North Carolina taxes demonstrate some degree of elasticity. Whenever possible, as part of the description of each tax, the elasticity is estimated.

Estimates of the income elasticity of tax collections are obtained by regression analysis, which measures how much of a change in the dependent variable (tax collections) is explained by changes in the independent variable or variables (personal income). The measurement is given by the value of the "R²." For example, if R² = 0.92, then 92% of the change in the dependent variable can be explained by changes in the independent variables.

Tax Burden. Tax burden is the amount of sacrifice individuals make when paying their taxes. In its simplest form, tax burden can be measured in terms of the number of dollars of an individual's income that must be dedicated to tax payments. The more dollars an individual must sacrifice the greater the tax burden.

Two common measures of tax burden are per capita tax payments and taxes paid as a percentage of personal income. The per capita tax payment is the average amount of taxes paid by each individual. It is found by dividing total state and local tax payments of a state by the population of the state. For instance, suppose there are 100 people in State A who pay a total of \$50,000 in state and local taxes, while there are 75 citizens in State B who pay \$30,000. The per capita tax payments in each state is determined as follows:

$$\text{Per Capita Tax Payments (State A)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Total State Population}} = \frac{\$50,000}{100} = \$5,000$$

$$\text{Per Capita Tax Payments (State B)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Total State Population}} = \frac{\$30,000}{75} = \$4,000$$

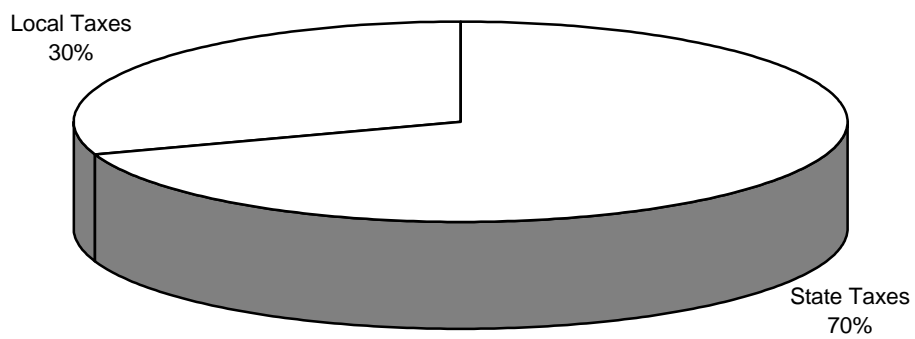
Taxes paid as a percentage of personal income are found by dividing the total amount of state and local taxes paid by the total state personal income. For instance, suppose the citizens of State A have a total income of \$1,000,000 while the citizens of State B have a total income of \$400,000. Taxes paid as a percentage of personal income are found as shown below:

$$\begin{array}{lcl} \text{Taxes Paid as a Percentage of} & = & \frac{\text{Total State and Local Taxes Paid}}{\text{Gross State Personal Income}} = \frac{\$50,000}{\$1,000,000} = 5\% \\ \text{Personal Income (State A)} & & \end{array}$$

$$\begin{array}{lcl} \text{Taxes Paid as a Percentage of} & = & \frac{\text{Total State and Local Taxes Paid}}{\text{Gross State Personal Income}} = \frac{\$40,000}{\$400,000} = 10\% \\ \text{Personal Income (State B)} & & \end{array}$$

Taxes paid as a percentage of personal income are a better measure of tax burden than per capita tax payments. In the above example, the average citizen in State A paid more taxes than the average citizen in State B. Citizens in State A had a higher per capita tax burden. However, since the average income of citizens in State A was much higher than that of State B, they sacrificed a smaller portion of their income in tax payments. Obviously, their tax burden in terms of real sacrifice (amount of private consumption given up to pay taxes) was less. The concept of tax burden is frequently used in Part VII to analyze the tax effort of citizens of North Carolina compared to the tax burden of citizens of other states.

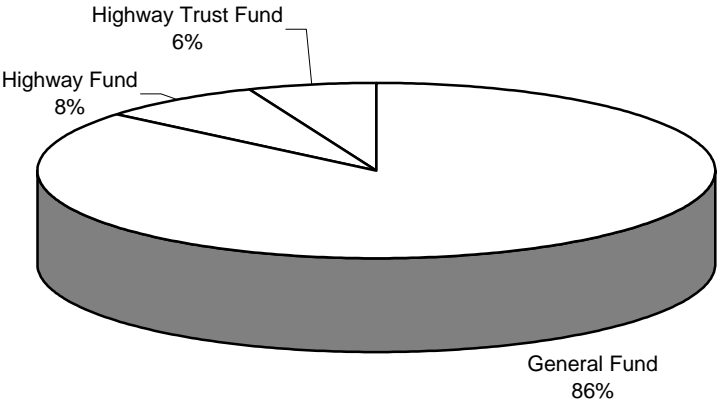
CHART 1
TAX COLLECTIONS RECEIVED BY NORTH CAROLINA
GOVERNMENTS
(1998-99)



State Taxes	\$13,915,678,473
Local Taxes	6,035,951,738

Total State and Local Taxes	\$19,951,630,211

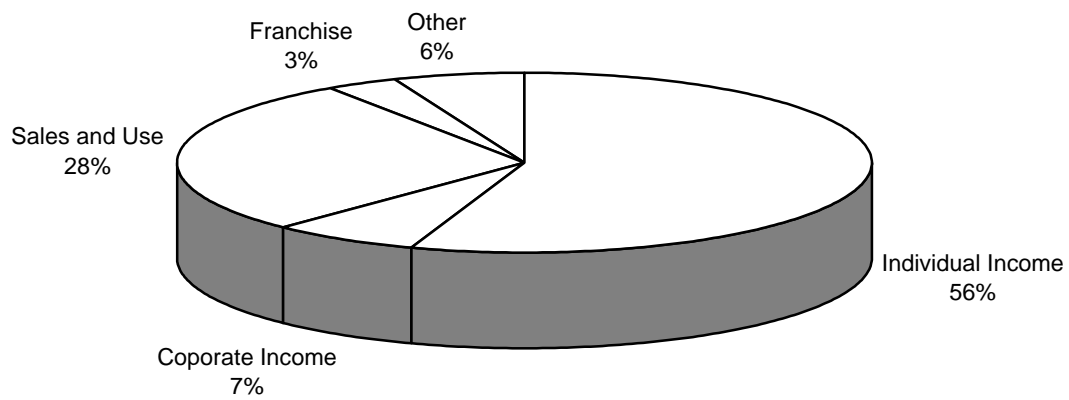
CHART 2
NORTH CAROLINA STATE TAX COLLECTIONS
(1998-99)



General Fund	\$11,966,224,754
Highway Fund	1,114,947,096
Highway Trust Fund	834,506,623
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Total State Tax Revenue	\$13,915,678,473

General Fund Taxes

CHART 3
NORTH CAROLINA GENERAL FUND TAX COLLECTIONS
(1998-99)



Individual Income	\$6,606,500,278
Corporate Income	848,509,669
Sales and Use	3,376,206,664
Franchise	409,558,340
Other	725,449,803

Total	\$11,966,224,754

NORTH CAROLINA STATUTES

105-113.68 to 105-113.104; 18B-902

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	163,188,783	1.3	1.7
1995-96	145,517,853 (1)	-10.8	1.5
1996-97	150,208,567	3.2	1.5
1997-98	153,723,510	2.3	1.4
1998-99	158,026,529	2.8	1.3

(1) In lieu of an annual fixed appropriation, the General Assembly restored the earmarking of a portion of the tax to local governments.

BASE AND RATE

Annual license fees are imposed on the manufacturing, bottling, or selling of beer and wine. Excise taxes are levied on beer, wine, and spirituous liquors. Resident wholesalers and importers pay excise taxes on wine and beer, and local alcoholic beverage control boards pay excise taxes on liquor.

An applicant for a permit issued by the North Carolina Alcoholic Beverage Control Board must pay the following fees: (1) \$400 to sell either malt beverages, fortified wine, or unfortified wine on premises; (2) \$400 to sell either malt beverages, fortified wine, or unfortified wine off premises; (3) \$400 brown bagging permit for an establishment seating 50 or more, and \$200 for an establishment seating less than 50; (4) \$400 for a special occasion permit, and \$50 for a limited special occasion permit; (5) \$1,000 for a mixed beverage, or guest room cabinet permit; (6) \$200 for a culinary, winery special event, or mixed beverage catering permit; (7) \$300 for a unfortified winery, fortified winery, limited winery, brewery, distillery, wine importer, wine wholesaler, malt beverage importer, malt beverage wholesaler, or bottler permit; (8) \$100 for a fuel alcohol permit; (9) \$100 for a salesman; (10) \$50 for a vendor representative permit, or certain special one-time permits; (11) \$100 for a nonresident malt beverage vendor or nonresident wine vendor permit; and (12) \$500 for a liquor importer/bottler permit.

By authorization of local elections, liquor "by the drink" may be sold by qualified restaurants and clubs. An additional tax of \$20 per gallon is levied on liquor purchased by restaurants or clubs for sale by the drink. Of this levy, \$9 remains with local governments along with various mixed beverages permit fees. For more information see "Liquor by-the-Drink Tax" in the Local Government Section.

In addition to the above levies, the following excise taxes are imposed: (1) beer is taxed at a rate of 53.177 cents per gallon (this is equivalent to 5 cents per can); (2) unfortified wine is taxed at 21 cents per liter; (3) fortified wine is taxed at 24 cents per liter; and (4) spirituous liquor is taxed at 28% of retail price by the state. An additional 3.5% levy on the retail price is allocated as part of ordinary profits of the ABC store to the respective localities where the ABC store is located. Similarly, an add-on tax of 5 cents per bottle of liquor sold in ABC stores is levied, with the revenue distributed to local governments in the same manner as profits from the ABC stores.

DISTRIBUTION

The state earmarks 23.75% of the excise tax on malt beverages, 62% of the excise tax on unfortified wine, and 22% of the excise tax on fortified wine to local jurisdictions in which such sales are allowed. The remaining revenue is deposited in the General Fund. Revenue deposited in the General Fund is used for general purposes except for 94% of the excise tax on unfortified wines and 95% of the excise tax on fortified wine bottled in North Carolina, up to a maximum of \$175,000 per fiscal year. This revenue is allocated to the Department of Agriculture for the promotion of N.C. grapes. Of the \$20 per four liters levy on alcohol used for liquor by-the-drink sales, \$10 goes to the General Fund, \$1 to the Department of Human Resources and \$9 to the local governments where the sales took place. In addition, 5 cents per bottle "add-on" tax on any alcohol sold in Alcoholic Beverage Control (ABC) stores goes to county commissioners for rehabilitation of alcoholics. An additional 3.5% levy above the state excise tax of 28% on the retail price of alcohol sold in ABC stores is also allocated to local governments in localities where such stores are located as part of the profits of the ABC stores. A 5 cents per bottle add-on of liquor sold in ABC stores is levied. The revenue is used by counties and municipalities in the same manner as profits from local ABC stores. Effective July 1, 1995. Only General Fund revenue is shown above.

TAX CALENDAR

Wholesalers and importers of beer and fortified and unfortified wine and ABC Boards must file returns including monthly tax payments by the fifteenth day of the month for the previous month's activities.

TAX ELASTICITY

The consumption of alcoholic beverages is influenced by the price of the product, social habits, demographics, and purchasing power as reflected by personal income. Tax collections are moderately related to personal income ($R^2 = 0.84$). Consumption has increased slightly in recent years, but has lagged behind the growth in personal income, and has an estimated elasticity of 0.24. That is, for every 10% increase in personal income, tax collections increase by 2.4%.

COMPARISON WITH OTHER STATES

Fifty states have alcoholic beverage taxes, with 18 states, including North Carolina, having state licensed stores. Tax rates vary considerably as each state enacts different tax rates on beer, wine, and spirituous liquors. Because of the wide variety of laws, it is difficult to make an exact comparison of North Carolina's laws with those of other states. However, the following comparison will give the reader a good approximation of the relative tax burdens. The latest complete survey on the taxation of alcoholic beverages is for the calendar year 1998, and consists of the combined revenue per wine gallon from all state and local taxes, fees, and levies on alcoholic beverages.

Taxes on beer ranged from \$0.11 per gallon in Oregon to \$1.76 in Florida. The median overall tax rate for the nation was \$0.83 per gallon, while the median rate for the 12 southeastern states stood at \$0.92, and the median for the 11 most populated states was \$1.01. North Carolina's rate was \$1.04 per gallon. North Carolina is the 13th highest combined tax rate in the nation, while standing 5th in the Southeast, and 5th among the 11 most populated states.

Taxes on wine ranged from \$0.69 per gallon in Oregon to \$7.38 in Utah. The median overall tax rate for the nation was \$2.41 per gallon, while the median rate for the 12 southeastern states stood at \$3.08, and the median for the 11 most states was \$2.79. North Carolina's rate was \$2.90 per gallon. North Carolina had the 20th highest tax rate in the nation, while standing 8th in the Southeast, and the 4th highest among the 11 most populated states.

Taxes on distilled spirits ranged from \$3.74 per gallon in Delaware to \$27.23 in Washington. The median overall tax rate for the nation was \$11.99 per gallon, while the median rate for the 12 southeastern states stood at \$13.97, and the median for the 11 largest states was \$14.05. North Carolina's rate was \$18.60 per gallon. North Carolina had the 9th highest combined tax rate in the nation, while standing 2nd in the Southeast, and 4th among the 11 most populated states.

**REVENUE PER GALLON FROM COMBINED STATE AND LOCAL COLLECTIONS,
ON BEER, WINE, AND DISTILLED SPIRITS, FOR NORTH CAROLINA
AND SURROUNDING STATES IN 1998**

STATES	BEER	WINE	SPIRITS
United States (Median)	\$ 0.83	\$ 2.41	\$ 11.99
Southeast (Median)	0.92	3.08	13.97
Eleven Largest States (Median)	1.01	2.79	14.05
Surrounding States			
Georgia	1.63	3.29	10.52
Kentucky	0.74	1.87	8.47
North Carolina	1.04	2.90	18.60
South Carolina	1.23	2.41	14.68
Tennessee	0.88	3.65	13.25
Virginia	0.87	2.93	18.07

Source: Information is obtained from "Public Revenues from Alcohol Beverages, 1998," Distilled Spirits Council of the United States, Inc., Washington, D.C., January 2000, Table 11.

NORTH CAROLINA STATUTES

105-113.2 to 105-113.40

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	44,635,750	17.7	0.5
1995-96	46,697,736	4.6	0.5
1996-97	46,677,349	-0.04	0.5
1997-98	47,177,218	1.1	0.4
1998-99	44,852,542	-4.9	0.4

BASE AND RATE

A five cents tax per package of 20 cigarettes is levied on distributors. A distributor license fee of \$25 is levied on any place where a distributor receives or stores non-tax-paid cigarettes.

A 2% wholesale excise tax is levied on tobacco products other than cigarettes. In addition, a \$25 license fee is levied on wholesale dealers, and a \$10 license fee is levied on retail dealers for each place where a wholesale or retail dealer makes tobacco products other than cigarettes, or receives or stores other such non-tax-paid tobacco products.

A 4% discount is allowed for timely payments.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Cigarette distributors as well as other tobacco product wholesaler and retail dealers file monthly returns with payment of tax by the twentieth of each month for the previous month's activity.

TAX ELASTICITY

The sales of cigarettes and other tobacco sales have been stagnant for several years. Since consumption is partially habitual there is only a modest relationship between tax collections and personal income ($R^2 = 0.58$). Sales have lagged significantly behind personal income, thereby generating an elasticity of 0.27. That is, for every 10% increase in personal income, sales have increased by 2.7%.

COMPARISON WITH OTHER STATES

All states levy cigarette taxes. Rates ranged from 2.5 cents per pack in Virginia to \$1.00 in Alaska and Hawaii. The median tax for the nation was 33 cents per pack. North Carolina had the second lowest rate in the nation at 5 cents per pack. A distribution of cigarette tax rates is shown below.

DISTRIBUTION OF STATE CIGARETTE TAX RATES, AS OF JULY 1, 1995

Cents Per Pack	Number of States
Below 10 cents	4
10 cents to 19 cents	9
20 cents to 29 cents	8
30 cents to 39 cents	8
40 cents to 49 cents	4
50 cents to 59 cents	6
50 cents to 79 cents	6
Above 80 cents	5

Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December 1998.

NORTH CAROLINA STATUTES

105-130.0 to 150-132.0 and 105-163.25 to 105-163.37

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	649,389,838	33.1	6.9
1995-96	673,837,774	3.8	7.1
1996-97	717,750,574	6.5	7.0
1997-98	696,338,557	-3.0	6.3
1998-99	848,509,669	21.9	7.1

BASE AND RATE

North Carolina's definition of income basically follows the federal statutes. A 6.9% corporation income tax is levied on corporate net income derived from all business conducted in the state. Multi-state corporations are required to use a specific formula to obtain the percentage of income earned in North Carolina, which is then applied to total net income in order to compute the net income subject to the North Carolina income tax. The basic formula used in North Carolina is a three-factor formula with a double weighting of the sales factor. The factors are: (1) the value (original cost) of real and tangible property owned or rented by the company in this state to total value of such property; (2) the level of payrolls in this state to total payrolls; and (3) the level of sales to customers in this state to total sales. Separate formulas are available for railroads, telephone, telegraph, and motor carrier companies. Alternative methods may be authorized by the North Carolina Tax Review Board. A one-factor formula based on the sales ratio is used by building contractors, security dealers, loan companies, or corporations receiving more than 50% of their ordinary gross income from investments and/or dealings in intangible property.

The following corporations are exempt from the North Carolina corporate income tax: (1) cooperative banks without capital stock organized for mutual purposes and without profits; (2) credit unions; (3) insurance companies subject to the tax on gross premiums; (4) telephone membership and electric membership corporations; (5) business development corporations; and (6) nonprofit corporations.

North Carolina provides many tax credits. Several credits are designed to encourage economic development especially in economically depressed counties. The credits may vary between counties, and certain corporations may not qualify. The credits often apply to a portion of expenditures, and are subject to maximum allowable amounts. Companies must meet various criteria to qualify for the individual credits. If the criteria is met the credits are for: 1) hiring additional full time employees; 2) certain expenditures incurred for providing training of five or more eligible employees; 3) amount spent on depreciable machinery and equipment of manufacturers, processors, warehouseers, distributors, data processors, central administrative offices, and companies engaged in motion picture production. These credits sometimes extend to leased machinery and equipment that is depreciable for federal tax purposes; 4) 4.5% of the first \$100,000 of depreciable property purchased and placed in service in the state; 5) the amount invested in the North Carolina Enterprise Corporation up to a maximum of \$750,000; 6) taxpayers who claim the federal income tax credit for increased research activities; 7) cost of machinery and equipment of major recycling facilities; 8) manufacturers who export cigarettes to foreign nations; 9) machinery and equipment used in production based on technology licensed from a state research institution; 11) corporations using the ports of Wilmington and Morehead City; 12) 25% of contributions or investments in a nonprofit organization in a development zone; 13) additional incentives for establishments located in development zones; 14) cost of renewable energy property used in residential and nonresidential structures; 15) use of recycled newsprint in newspapers and magazines; 16) construction of ethanol fuel distillery; 17) electric cogenerator plants; 18) distilleries for the production of gasohol; 19) qualified rehabilitation expenditures with respect to a certified historic structures; 20) construction of dwellings for the handicapped; 21) construction and rehabilitation of low income housing; 22) market value of donated property to the government used for recreational access or conservation purposes; 23) allowed against property taxes paid on farm machinery by S-Corporations; 24) peat products manufacturing facilities; 25) corporations that provide telephone service to low income subscribers at reduced rates; and 26) corporate farms for gleaning crops.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except for 2/31st of each previous quarter's collection, which is placed in the Public School Capital Funds. Earmarks of a portion of collections to reimburse local government for the state-mandated elimination of the business inventory tax, exemption from sales taxes of purchases made with food stamps, repeal of the intangibles tax, and partial reimbursement for the homestead exemption. Only General Fund revenue is shown above.

TAX CALENDAR

Calendar year corporations must file a tax return including tax payments by March 15 of each year for the previous year's activity. Corporations whose fiscal year does not correspond with the calendar year must file by the 15th day of the third month following the ending of its fiscal year. Declarations of estimated tax liability are due by the fifteenth day of the fourth, sixth, ninth, and twelfth month of the taxable year.

TAX ELASTICITY

Corporate tax collections are dependent on the level of corporate profits. The relationship between state corporate profits and state personal income was strong in recent years, and has resulted in an $R^2 = 0.93$. Corporate profits have been very buoyant during this expansion. Further, there has been a shift in the share of income towards non wage income. Thus, the income elasticity of corporate income tax collection is quite strong, equal to 1.61. That is, for every 10% increase in state personal income, corporate income tax collections increases by 16.1%.

COMPARISON WITH OTHER STATES

Forty-five states levy corporate income taxes. Michigan levies a single business tax. Most states followed the federal definition of income. Of the 45 states levying corporate income taxes, 27 states had a higher marginal rate than North Carolina, while 17 states had a lower marginal rate.

DISTRIBUTION OF STATE CORPORATE INCOME TAXES

HIGHEST MARGINAL RATE	NUMBER OF STATES
Below 5.0%	1
5.0% to 5.9%	6
6.0% to 6.9%	11
7.0% to 7.9%	8
8.0% to 8.9%	9
9.0% to 9.9%	6
10.0% and above	4

Source: *State Tax Handbook*, 1999, Commerce Clearing House, Chicago, Illinois, December 1998.

NORTH CAROLINA STATUTES

105-114 to 105-129.1

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	458,058,989	4.3	4.9
1995-96	355,918,036	-23.3	3.8
1996-97	387,811,674	9.0	3.8
1997-98	407,256,555	5.0	3.7
1998-99	409,558,340	0.6	3.4

BASE AND RATE

Franchise taxes include taxes on electric power companies; gas and other similar utility companies; telegraph companies; telephone companies; mutual burial associations; business corporations, and cooperative organizations.

There is levied on each utility an annual charge to defray the cost of regulation. The regulatory rate is 0.09% of each public utility's North Carolina jurisdictional income.

Gas(*), Power and Light, Water, Sewerage, and Other Similar Public Service Companies. A 3.22% tax rate is applied to the total gross receipts in the state, minus authorized exemptions and deductions of gas, power and light, and all other utilities not otherwise taxed under a separate section, except privately owned water companies and public sewerage companies. The former is taxed at 4.0% and the latter at 6.0%. In addition, usage of gas, power and light, and other utilities services are also subject to a 3% sales tax. (See "Sales and Use Tax" in this section.)

(*) Effective July 1, 1999, a separate schedule for piped natural gas is created based on the monthly volume of natural gas received by the final user. The tax per therm is as follows: first 200, \$0.047; 201 to 15,000, \$0.035; 15,001 to 60,000, \$0.024; 60,001 to 500,000 \$0.015; and over 500,00, \$0.003.

Street Bus Companies or Similar Transportation Systems for Passengers. A flat fee of \$35 per year is charged.

Telegraph Companies. A 6% tax is levied on total gross receipts, which both originate and terminate in the state.

Telephone Companies. A 3.22% tax is levied on total gross receipts from all rentals and other similar charges derived from local telecommunication services. In addition, local telecommunication service revenue is subject to a 3% sales tax, while toll communication services and private telecommunication service revenues are subject to a 6.5% intra-state sales tax. (See "Sales and Use Tax" in this section for additional information.)

Mutual Burial Associations. A \$15 levy is applied to associations with memberships of less than 3,000; \$20 for 3,001 to 5,000; \$25 for 5,001 to 10,000; \$30 for 10,001 to 15,000; \$35 for 15,001 to 20,000; \$40 for 20,001 to 25,000; \$45 for 25,001 to 30,000; and \$50 for 30,001 or more.

Business Corporations and Cooperative Organizations. A tax rate of \$1.50 per \$1,000 of value of the largest of the following is applied:

1. The sum of capital stock, surplus, and undivided profits apportioned to North Carolina.
2. Fifty-five percent of the appraised value of real estate and tangible personal property in North Carolina plus the assessed value of intangibles.
3. Net book value of real and tangible personal property in North Carolina.

As in the case of the corporation income tax, business corporations operating in states other than North Carolina use a specified formula to determine the amount of the value of capital stock, surplus, and undivided profits subject to this tax. The basic formula is based on the average of three ratios, with a double weighting of the sales ratio. The ratios are: (1) property ratio, (2) payroll ratio, and (3) sales ratio. (See "Corporate Income Tax" in this section for additional information.) There is a minimum annual filing charge of \$35.

(*) Effective July 1, 1999, natural gas excise tax returns are due quarterly by the last day of the month that follows the quarter. This will be done under a separate excise tax on natural gas schedule.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except for revenue from the regulatory fee. It should be noted that the General Assembly appropriates to local government, on an annual basis, approximately 96% of the gross receipts from business operations within cities by telephone companies and public utilities. Effective July 1, 1999, within 75 days after the end of each calendar quarter, the Secretary must distribute to the cities (which resell natural piped gas) one half the amount of collections attributed to that city. This will be done under the new excise tax on natural gas schedule.

TAX CALENDAR

Franchise taxes are due on the following dates: 1) gas(*), power and light companies, and telephone companies with a tax liability of \$3,000 or more per month, file and remit payment on the last day of the month, except for June, when payment is due by the twenty-fifth. Telephone companies with a tax liability of less than \$3,000 per month may file and pay quarterly; 2) water, sewerage, and other similar public service companies file and remit payment quarterly by the thirty-first of January, April, July, and October for the prior three months' economic activity; 4) street bus companies and similar transportation companies for passengers must file and remit payment by June 1 for the privilege of doing business in the next fiscal year beginning July 1; 5) telegraph companies must file and remit payment by August 1 for taxes due on gross receipts earned during the previous calendar year; 6) mutual burial associations must file and remit payment by April 1 each year for membership as of March 30; and 7) business corporations and cooperative organizations must file and remit payment by the fifteenth day of the third month following the end of their income year for the amounts shown on their books for said income year.

TAX ELASTICITY

The franchise tax schedule includes several tax components. The largest components of the franchise tax are the excise tax on utility services and the corporate franchise tax. These collections depend on the level of economic activity, income, price, weather, and the value of property. Although state personal income is not the most direct determinant of these collections, it is a good proxy, as it reflects the general state of the economy. A strong relationship between personal income and franchise tax collections was found ($R^2 = 0.97$). The franchise tax is moderately responsive to economic growth, and had an estimated income elasticity of 0.99. That is, for every 10% change in personal income, franchise tax collection change by 9.9%.

COMPARISON WITH OTHER STATES

All states levy at least one or more of the components of North Carolina's franchise tax. Over 98.0 percent of the state's total franchise tax collections is made up by the three largest components of the tax: 1) corporate franchise tax, 2) gross receipts tax on gas, power and light companies, and 3) gross receipts tax on telephone companies.

Every state levies a tax on corporate franchises. These levies are in the form of flat charges or graduated rates. Seventeen states levy only a flat filing charge, while all other states levy both a flat filing charge and a graduated tax. Graduated taxes are typically based on the number of shares outstanding or the net worth of the corporation. Because of various tax bases of corporate franchise taxes, it is difficult to make a national comparison. However, it appears that North Carolina's corporate franchise tax is higher than the national average. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Inc., Chicago, Illinois, December 1998.)

North Carolina citizens pay a 3.22% gross receipts tax on power and light, and telecommunication companies. (Note: effective July 1, 1999, there is a new excise tax on piped natural gas schedule.) Several other states also levy franchise taxes on telephone and power companies using various tax bases which include gross receipts, profits, gross income, miles of service, and kilowatt hours. It appears that 33 states levy some type of percentage tax on gas, power and light, and telecommunication services. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December 1998.)

NORTH CAROLINA STATUTES

105-228.1 to 105-228.2

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	435,745	28.9	0.01
1995-96	422,026	-3.2	0.00
1996-97	495,433	17.4	0.00
1997-98	477,655	-3.6	0.00
1998-99	469,302	-1.8	0.00

BASE AND RATE

A 3% levy is placed on the gross earnings of freight line companies, derived from operating or leasing freight cars, for transporting freight over any railroad lines in the state. This tax is in lieu of ad valorem taxes.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Taxes are due by April 30 for gross earnings of the previous calendar year.

TAX ELASTICITY

The relationship between personal income and collections from the excise tax on freight cars was too weak to warrant estimating an income elasticity.

COMPARISON WITH OTHER STATES

Fifteen three states levy specific and separate taxes on freight car lines. The levies are typically based on gross receipts ranging from 1% to 6%. North Carolina's rate is 3%. Some states, however, levy taxes based on net earnings or on a per mile basis. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December, 1998.)

NORTH CAROLINA STATUTES

105-188 to 105-197

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	8,591,847	-34.7	0.1
1995-96	11,036,783	24.5	0.1
1996-97	12,560,940	13.8	0.1
1997-98	20,640,224	64.3	0.2
1998-99	19,334,909	-6.3	0.2

BASE AND RATE

The tax is levied on the donor against all property transferred as gifts in excess of \$10,000 under the jurisdiction of the state, whether real or personal during a calendar. Taxes are only levied on nonresidents when they give property, which the state has, jurisdiction.

Gifts to a spouse are exempt from taxation. The first \$10,000 in gifts per year given to each donee other than gifts of future interest in property, is exempt from taxes. A donor, with permission of the other spouse, may use some or all of the spouse's \$10,000 annual exclusion. In addition to the \$10,000 annual exclusion, there is a \$100,000 per donor lifetime exemption to be deducted from gifts made to a Class A donee. Gifts to state or political subdivisions or nonprofit charitable, religious, or educational corporations within the state are exempt. There are four classifications of donees: 1) Spouse; 2) Class A, which includes lineal issues or ancestors, stepchildren, or adopted children; 3) Class B, which includes brothers, sisters, issues of either, or blood aunts, or uncles; and 4) Class C, which includes other relatives or unrelated persons.

RATE/BRACKET SCHEDULE
(APPLIES TO PORTIONS IN EXCESS OF EXEMPTION)

Tax Brackets			Rate for Class A Donee	Rate for Class B Donee	Rate for Class C Donee
\$	0 -	5,000	1	4	8
	5,001 -	10,000	1	5	8
	10,001 -	25,000	2	6	9
	25,001 -	50,000	3	7	10
	50,001 -	100,000	4	8	11
	100,001 -	200,000	5	10	12
	200,001 -	250,000	6	10	12
	250,001 -	500,000	6	11	13
	500,001 -	1,000,000	7	12	14
	1,000,001 -	1,500,000	8	13	15
	1,500,001 -	2,000,000	9	14	16
	2,000,001 -	2,500,000	10	15	16
	2,500,001 -	3,000,000	11	15	17
	Above 3,000,000		12	16	17

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Taxes are due by April 15 for gifts made during the prior calendar year.

TAX ELASTICITY

Gift tax collections are dependent on the net wealth, estate planning, and generosity of the donors. There is not a significant statistical relationship between collections and state personal income.

COMPARISON WITH OTHER STATES

Five states have gift taxes. There are wide variations in exemptions, rates, and recipient categories. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December, 1998.)

NORTH CAROLINA STATUTES

105-133 to 105-159.1, 105-163.01 to 105-163.09, and 105-163.1 to 105-163.25

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	4,665,474,733	9.7	49.8
1995-96	4,800,034,948	2.9	50.8
1996-97	5,329,990,261	11.0	52.6
1997-98	6,028,870,217	13.1	54.4
1998-99	6,606,500,278	9.6	55.2

BASE AND RATE

The state conforms closely to the federal tax code. The following are some of the additions to the federal definition of taxable income: 1) interest from state and local government obligations other than those of North Carolina and its subdivisions; 2) any amount allowed as a deduction from gross income that is taxed by a separate tax under the Internal Revenue Code (IRC) such as lump sum distributions of certain employees' retirement plans; 3) state, local, and foreign income taxes allowed on federal returns only if total deductions exceed the allowed federal standard deduction; and 4) standard deduction and personal exemption inflation adjustments allowed under the IRC are not automatically authorized under North Carolina law. The following items are not included in North Carolina taxable income: 1) interest from obligations of the United States, North Carolina, or its subdivisions; 2) gain from the disposition of obligations issued before July 1, 1995, to the extent the gain is exempt under North Carolina law; 3) benefits under Title II of the Social Security Act and retirement benefits under the Railroad Retirement Act of 1937; 4) refunds of state, local, and foreign income taxes; 5) maximum of \$4,000 in retirement benefits from one or more federal, state, or local retirement plans if the retiree had less than five years of service as of August 12, 1989, and all retirement benefits excluded if the retiree had more than five years service; and 6) up to \$2,000 in one or more private retirement plans.

Each personal exemption is \$2,500 for a taxpayer whose federal adjusted gross income (AGI) is less than the amounts shown below, and \$2,000 if more than these amounts.

<u>Filing Status</u>	<u>Federal Adjusted Gross Income</u>
Married Filing Joint	\$100,000
Head of Household	80,000
Single	60,000
Married Filing separate	50,000

In addition, an exemption up to \$35,000 in severance pay is granted as a result of the taxpayer's involuntary termination through no fault of the taxpayer. The standard deduction is as follows: 1) married filing joint--\$5,000; 2) married filing separate--\$2,500; 3) head of household with dependent--\$4,400; and 4) single--\$3,000. After allowing for personal exemptions and deductions, the following rate/bracket schedule applies:

RATE/BRACKET STRUCTURE

<u>Rate</u>	<u>Married Filing Joint</u>	<u>Married Filing Separate</u>	<u>Head of Household</u>	<u>Single</u>
6.0%	\$ 0 - 21,250	\$ 0 - 10,625	\$ 0 - 17,000	\$ 0 - 12,750
7.0%	21,251 - 100,000	10,626 - 50,000	17,001 - 80,000	12,751 - 60,000
7.75%	100,001 and Above	50,001 and Above	80,001 and Above	60,001 and Above

The following tax credits are allowed: 1) a progressive dependent care credit for qualified expenditures up to a maximum of \$2,400 of expenditures for one dependent and \$4,800 for more than one dependents; 2) \$60 credit for each dependent child; 3) a credit for child health insurance premiums; 4) a credit for taxes paid on certain federal retirement benefits; 5) a credit of 1/3 the amount allowed by federal government for an individual who is totally and permanently disabled; 6) a credit for taxpayer's share of S-corporation income taxes paid in another state that taxes the corporation rather than the shareholder; 7) a tax credit to farmers who permit their crops to be gleaned; 8) a tax credit is for donating an interest in real property to the state, local government, or other qualifying organization for certain land conservation purposes; 9) a 25%, credit up to a maximum of \$50,000, for the amount invested in equity securities of a qualified business; 10) a tax credit for qualified rehabilitation expenditures with respect to a certified historic structure; 11) and a partial credit for individuals and corporations using the ports at Wilmington and

Morehead City; 12) a tax credit for taxes paid to another state or country; 13) a tax credit up to maximum of \$550 for the construction of each dwelling for the handicapped that conforms to the North Carolina Building Code; 14) a credit up to a maximum of \$1,000 for property taxes paid on farm machinery; 15) a 7% tax credit for charitable contributions in excess of 2% of adjusted gross income; 16) a 15% tax credit up to \$350 for the premium cost on a qualified long-term care policy; 17) a partial tax credit for the construction of a poultry composting facility; and 18) a 35% tax credit for the cost of renewable energy property up to a maximum of \$20,000 for nonresidential property and \$10,500 for residential property. In addition various tax credits are granted for: a) construction of a solar energy system, b) cost of conversion of an industrial boiler, c) hydroelectric generator, d) solar heat in a manufacturing process, e) wind energy device, f) cost of construction or installation of methane gas facility, and g) certain tillage equipment used for conservation. Further, selected credits are granted for: a) creating jobs in selected industries, b) investing in machinery and equipment, c) research and development expenditures, d) worker training, e) investing in central administrative office property, e) contributions to development zone projects, f) investing in certain business property, and g) investing in low income housing.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Returns and tax payments are due by April 15 for income earned during the previous calendar year.

Employers who withhold an average of less than \$500 per month are required to file and remit tax payments quarterly. Payments are due on the last day of the first month following the end of the calendar quarter for withholdings of the previous quarter. Every employer required to deduct and withhold an average of between \$500 and \$2,000 in income taxes per month, and all employers engaged in any business which is seasonal or temporary in nature, shall make returns and payments of such withholdings by the fifteenth day of the month following the month in which such amounts were withheld, except amounts withheld in December which are due on January 31. Employers who withhold an average of over \$2,000 per month are required to remit payments in accordance with the federal withholding payment schedule. Other employers not mentioned above who are required to deduct and withhold income taxes from wages and salaries shall make returns and payments quarterly. Payments are due on the last day of the first month following the end of the calendar quarter for withholdings of the previous quarter.

Estimated income tax payments are required if the taxpayer expects his net estimated tax after withholding and tax credits to be more than \$1,000. Estimated tax payments are due in four installments for the estimated current year's income by April 15, June 15, September 15, and January 15 (for the last quarter of the preceding year).

TAX ELASTICITY

Individual income tax collections are dependent on the level of state personal income, having an $R^2 = 0.96$. That is, 96% of the changes in personal income tax collections are associated with changes in state personal income. Further, personal income is responsive to changes in state personal income, with an estimated income elasticity of 1.14. That is, for every 10% increase in state personal income, individual income tax collections increase by 11.4%.

COMPARISON WITH OTHER STATES

Forty-three states levy individual income taxes with tax rates, deductions, and exemptions varying widely. North Carolina relies more heavily on the individual income tax than most other states, obtaining 29.9% of its state and local taxes from the individual income tax in 1995-96, as compared to 21.3% for the nation, 16.9% for the 12 Southern states, and 20.4 for the 10 most populated states. Ten states have a higher marginal rate than North Carolina, while 32 have a lower marginal rate. On a national basis, 2.4% of state personal income was devoted to state individual income tax payments. North Carolina citizens devoted 3.2% of their income to individual income tax payments, while taxpayers in the Southeast devoted 1.8%, and those in the eleven largest states 2.3%. In terms of per capita income the average taxpayer in the nation paid \$554 in individual income tax payments, while North Carolina taxpayers paid \$673, and those in the Southeast and the eleven largest state \$364 and \$553 respectively. (Source: *Governmental Finances: 1995-96*, Bureau of the Census, U.S. Department of Commerce, Washington, D.C., 1999, and *State Tax Handbook, 2000*, Commerce Clearing House, Chicago, Illinois, 1999.)

NORTH CAROLINA STATUTES

105.2 to 105.32 (repealed)

105-32.1 to 105.32.5 (Estate Tax)

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	109,865,447	3.1	1.2
1995-96	112,912,290	2.8	1.2
1996-97	132,068,325	17.0	1.3
1997-98	138,124,663	4.6	1.2
1998-99	169,935,220	20.0	1.4

BASE AND RATE

The Inheritance tax was repealed effective January 1, 1999. The state estate tax, which is equal to the state death tax credit allowed by the Federal Estate Tax Act remains in effect.

The inheritance tax was applicable to all property located within the state which is transferred at the time of death by residents of North Carolina to their heirs and beneficiaries, and by non residents owning real and tangible personal property in North Carolina. Heirs and beneficiaries were classified in four categories: Spouse, Class A, Class B, and Class C. (See "Gift Tax" in this section for additional information.) Spouses are exempt from the inheritance tax. A tax credit of \$33,150 (equivalent to a \$600,000 exemption) was shared by the Class A beneficiaries.

Property passing to charitable, educational, religious institutions, or governmental jurisdictions were exempt. Out-of-state charitable and educational bequests are exempt if a reciprocal arrangement was agreed to by the corresponding state.

Deductions included: 1) taxes accrued and unpaid at the time of death; 2) drainage and street assessments; 3) reasonable funeral and burial expenses; 4) debts of decedent; 5) estate or inheritance taxes paid to other

states or foreign countries; 6) expenses for monuments up to \$2,500; and 7) payment for executors, administrators, and legal fees; 8) cost of administration (includes interest paid on federal estate and North Carolina inheritance taxes).

The following rate schedule applied:

**RATE/BRACKET SCHEDULE
(APPLIES TO PORTIONS IN EXCESS OF EXEMPTION)**

Tax Brackets	Rate for Class A Donee	Rate for Class B Donee	Rate for Class C Donee
\$ 0 - 5,000	1	4	8
5,001 - 10,000	1	5	8
10,001 - 25,000	2	6	9
25,001 - 50,000	3	7	10
50,001 - 100,000	4	8	11
100,001 - 200,000	5	10	12
200,001 - 250,000	6	10	12
250,001 - 500,000	6	11	13
500,001 - 1,000,000	7	12	14
1,000,001 - 1,500,000	8	13	15
1,500,001 - 2,000,000	9	14	16
2,000,001 - 2,500,000	10	15	16
2,500,001 - 3,000,000	11	15	17
Above 3,000,000	12	16	17

DISTRIBUTION

Revenue was deposited in the General Fund for general purposes.

TAX CALENDAR

Reports must be filed within nine months after the appointment of an executor or administrator. Tax payments were due at time of death of decedent, but a nine month extension is granted for payments without interest or penalty. Interest accrued on any unpaid tax beginning nine months after the date of death. When all the beneficiaries are Class A and/or the spouse, the threshold for filing was \$6,010,000.

ESTATE TAX

A tax in addition to the inheritance tax is imposed when the inheritance tax is less than the maximum state death tax credit allowed by the Federal Estate Tax Act. The estate tax is equal to the difference between the federal state tax credit and the North Carolina inheritance tax.

TAX ELASTICITY

Inheritance tax collections are dependent on the net wealth of decedents at the time of death. Although these events can be quite random, there appears to be a strong statistical relationship between collections and state personal income ($R^2 = 0.97$). Over the past decade, collections have increased faster than state personal income. It is estimated that inheritance tax collections have an income elasticity of 1.42. That is, for every 10% change in personal income, inheritance tax collections change by 14.2%.

COMPARISON WITH OTHER STATES

All 50 states levy death taxes. Fifteen states levy an inheritance tax and an estate tax. The estate taxes are equal to the state death tax credit allowed by the Federal Estate Tax Act. One state, Texas, levies only an inheritance tax. The remaining 34 states levy only an estate tax. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December, 1998.)

NORTH CAROLINA STATUTES

105-228.3 to 105-228.10, and 58-33-125

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	236,215,989	7.6	2.5
1995-96	242,652,553	2.7	2.6
1996-97	258,503,720	6.5	2.5
1997-98	283,763,234	9.8	2.6
1998-99	291,230,879	2.6	2.4

BASE AND RATE

There are three levies against insurance companies--a gross premium tax, a regulatory charge, and license fees. The gross premium tax makes up over 98% of collections. There are two gross premium tax rates that are applied to both domestic and foreign insurance companies. A tax rate of 2.5% is levied on the gross premiums of worker's compensation policies. A tax rate of 1.9% is applied to the gross premiums of all other insurance policies. An additional 1.33% is applied to the gross premiums of fire and lightning policies (except on marine and automobiles) of which 75% remains with the General Fund and 25% is dedicated for special purposes. Further, an additional 0.5% is applied to the gross premiums of fire and lightning policies which is dedicated for special purposes. A 0.5% gross premium tax is applied to gross premiums of hospital and dental service corporations. Retaliatory provisions exist.

There is a regulatory charge paid by insurance companies, which is a percent of their premium tax liability. The current rate is 7%. The revenue is deposited in a special fund for the Department of Insurance in the state treasury.

Their respective North Carolina Guaranty Association covers life insurance and casualty insurance companies. Assessments are levied to cover the cost of insolvency and liquidations. A tax credit against

premium tax payments equal to the amount of the assessment is allowed. The credit is taken over a five-year period in equal annual amounts.

Various registration, examination, and license fees apply to insurance companies, insurance agents, and insurance adjusters.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except revenue collected from the regulatory fees, and 25% of the additional 1.33% tax, and 100% of the additional 0.5% tax which are deposited in a special fund in the State Treasury. Only General Fund revenue is shown above.

TAX CALENDAR

Gross premium taxes are due by March 15 for the previous calendar year's activities, except for insurance companies with a premium tax liability of \$10,000 or more for business done in North Carolina during the immediate preceding year. Such companies must pay 33 1/3% of the premium tax liability for the previous taxable year in three installments on or before the fifteenth of April, June, and October. Regulatory fees are due at the time the gross premium tax is due. Annual company registration fees are due by March 1 and are effective July 1. Annual registration fees for brokers, agents, and adjusters are due annually by April 1.

TAX ELASTICITY

Insurance tax collections are closely related to economic activity, and thus, to changes in state personal income. It has been estimated that $R^2 = 0.91$. That is, 91% of the change in insurance tax collections is statistically related to changes in personal income. There has been a decline in the responsiveness of insurance tax collection to the growth in state personal income in recent years as a result of credits taken against assessments of the North Carolina Guarantee Associations. The level of insolvencies and liquidations has declined, which will result in a smaller level of credits. It has been estimated that insurance tax collections have an income elasticity of 0.75. That is, for every 10% change in personal income, insurance tax collections change by 7.5%.

COMPARISON WITH OTHER STATES

Every state levies an insurance premium tax, which is paid in lieu of other taxes. The most typical premium tax rate is approximately 2%. It is difficult to compare rates between states because premium taxes vary depending on the type of policy and other special provisions apply. However, it appears that North Carolina's premium taxes are typical in comparison to other states. Two states had higher rates for foreign companies. Further, only two state did not have retaliatory taxes, in case other states had higher rates for foreign companies. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December 1998.)

NORTH CAROLINA STATUTES

105-33 to 105-113.1

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	64,661,218	70.4	0.7
1995-96	42,009,251	-35.0	0.4
1996-97	43,353,475	3.2	0.4
1997-98	36,648,113(*)	-15.5	0.3
1998-99	27,588,260(*)	-24.7	0.2

(*) The General Assembly has removed many businesses from the tax base.

BASE AND RATE

Various business license taxes are levied on persons, firms, or corporations engaging in certain businesses or professions. A 3% gross receipts tax is levied on the receipts of certain athletic, entertainment, and exhibition events. A 1% gross receipts tax is levied on the operation of motion picture shows. Individual engages in various professions including physicians, attorneys, engineers, and so forth pay a \$50 annual license fee. Privilege license taxes are also levied on banks, installment paper dealers, loan agencies, and publishers of newsprint publications.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Taxes are due annually by July 1 for the upcoming fiscal year.

TAX ELASTICITY

As a result of changes in the tax base an elasticity was not estimated.

COMPARISON WITH OTHER STATES

All states have occupational or business license taxes or fees. The occupations upon which the levies are placed and the individual rates vary significantly within and between states. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December 1998.)

NORTH CAROLINA STATUTES

105-164.1 to 105-164.44A

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	2,781,683,390	7.9	29.7
1995-96	2,958,132,813	6.4	31.3
1996-97	3,127,673,443	5.7	30.6
1997-98	3,255,372,048	4.1	29.3
1998-99	3,376,206,664	3.7	28.2

BASE AND RATE

A 4% state tax is imposed on retail sales, leases, or rentals to consumers of tangible personal property not specifically exempt or subject to taxation at a reduced rate. Certain services such as rental of accommodations to transients, cleaning services provided by dry cleaners, laundries and similar type businesses, and charges for burial are subject to the 4% rate of state tax. All items that are subject to the 4% state sales tax are also subject to all local option sales taxes, which are presently at a 2% rate, except in Mecklenburg County which has a 2.5% rate. Many items such as prescription medicine, certain medical devices, commercial feed, fertilizers, and certain items used in manufacturing, processing, distributing and other business activities are exempt from the tax. The stated list of exempt items is not all inclusive.

The gross receipts derived by a utility from the sale of electricity and local telecommunication services are subject to the 3% rate of state sales tax, in addition to the 3.22% rate of tax imposed under the franchise tax schedule. The gross receipts derived from providing intrastate toll or private telecommunication services are subject to a 6.5% state sales tax.

A 3% rate of state tax is levied on the retail sales price of new and used airplanes, boats, locomotives, railroad cars, mobile offices, and mobile classrooms with a maximum levy of \$1,500. Revenue from the long-term rental or leases of motor vehicles is subject to the 3% alternate highway use tax.

The sales of electricity to farmers, manufacturers, and coin laundries are taxed at 2.83%.

Manufactured housing is taxed at a 2% rate with a \$300 ceiling per article.

Short term leases of motor vehicle (less than 365 continuous days) are subject to the 8% alternate highway use tax, and accounted for under the General Fund.

Sales of coal, coke, fuel oil, and other combustibles, other than electricity or piped natural gas, to manufacturing industries or manufacturing plants are subject to the 1% rate, provided such combustibles are not used for residential heating purposes. These same combustibles are subject to the 1% rate of tax when sold to farmers for use by them for any farm purpose, including aqua-farming, other than preparing food, heating a dwelling, or other household purposes. The 1% rate also applies to mill machinery, mill machinery parts, and accessories thereof when sold to manufacturing industries and plants for use in the manufacturing process, with a maximum tax of \$80 per article. Certain similar articles are exempt when purchased by an air courier hub, or a major recycling facility. Sales to farmers of machines, and machinery and parts, or accessories for use in planting, cultivating, harvesting, or curing farm crops, or in the production of dairy products, eggs, or animals are subject to the 1% rate of tax with the \$80 maximum per article.

Food items sold for home consumption are exempt from the state sales tax base. However, these items are still subject to the 2% local government sales tax.

The federal government and the North Carolina Department of Transportation are exempt from state and local sales and use taxes. Exemptions also apply to railroad companies purchase of diesel fuel used by locomotives and railroad cars. State government agencies receive a refund of local sales and use taxes paid on their direct purchases for use. Certain governmental entities as defined by statute, as well as hospitals, educational institutions, churches, orphanages, and charitable and religious institutions not operating for a profit, and certain homes for the aged, sick, or infirm may obtain refunds of sales taxes paid. Refunds apply for certain items purchased by an air courier hub or a major recycling facility.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except for a small dedication to the Wildlife Resource Fund. In addition to the state sales tax, county governments levy a 2% tax on items, which the state taxes at the 4% rate, except Mecklenburg County, which has a 2.5% levy. The local tax base also includes food items sold for home consumption (See "Sales and Use Tax: Local Government" in the local government section for more information.) Only General Fund revenue is shown above.

TAX CALENDAR

For smaller merchants, taxes are due monthly by the fifteenth of each month on sales that took place the previous month. Businesses with monthly sales and use liabilities of \$20,000 or more are required to file sales and use tax returns and remit taxes due for the first 15 days of the month by the twenty-fifth, and taxes due for the last half of the month by the tenth of the following month. Persons who consistently owe sales or use taxes of less than \$100 per month may file reports quarterly within 15 days after the end of the calendar year quarter.

TAX ELASTICITY

Sales tax collections are directly related to the level of retail sales. Since state personal income is the major determinant of retail sales, there is a close statistical relationship between income and revenue ($R^2 = 0.98$). That is 98% of the changes in sales and use tax collections are related to changes in state personal income. Sales and use tax collections do not fluctuate as much as personal income. It is estimated that the sales and use tax is moderately responsive to changes in personal income with an income elasticity of 0.91. That is, for every 10% change in personal income, sales and use tax collections change by 9.1%.

COMPARISON WITH OTHER STATES

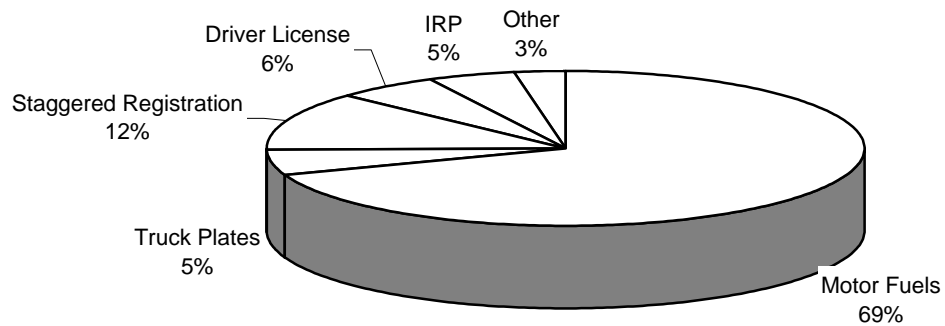
Forty-five states levy sales and use taxes. State sales tax rates range from 3% in Colorado to 7% in Mississippi and Rhode Island, with a median rate of 5%. The basic state sales tax rate for North Carolina is 4%. Two states have a lower state sales tax rate, nine the same (including North Carolina) a 4% rate, and 32 higher state rate. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December 1998.)

Additional local sales and use taxes are levied in 32 states including North Carolina. Information was found on 27 states. For the largest city in these states, tax rates ranged from 0.5% to 5.31%, with a median of 2%. Ten states had a lower local sales tax, three states including North Carolina had a 2% rate, and 13 states had a higher tax rate. (Source: *Tax Rates and Tax Burdens in the District of Columbia—A National Comparison*, July 1998.)

Eighteen states levy a state sales tax on food consumed at home. Two of those states levy a lower tax on food purchases. It should be noted that although North Carolina does not levy a state sales tax on food consumed at home, there is a 2% local sales tax on those purchases. (Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December 1998.)

Highway Fund Taxes

CHART 4
NORTH CAROLINA HIGHWAY FUND TAX COLLECTIONS
(1998-99)



Motor Fuels	\$775,542,096
Truck Plate	56,781,624
Staggered Registration	137,887,521
Driver License	62,278,971
International Registration Plan (IRP)	50,791,801
Other Licenses and Fees	31,665,083

Total	\$ 1,114,947,096

DEALER AND MANUFACTURER LICENSES

NORTH CAROLINA STATUTES

20-285 through 20-289

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	1,071,510	19.5	0.1
1995-96	1,157,249	8.0	0.1
1996-97	1,133,250	-2.1	0.1
1997-98	1,163,695	7.7	0.1
1998-99	1,204,073	3.5	0.1

BASE AND RATE

Annual license fees are levied on motor vehicle manufacturers, dealers, distributors, distributor branches, wholesalers, and salesmen at the following rates: 1) motor vehicle dealers, distributors, distributor branches and wholesalers--\$50 for each principle place of business; 2) manufacturers--\$100, and for each factory branch in this state--\$70; and 3) motor vehicle sales representatives, factory representatives, or distributor representatives--\$10, and a change of employers--\$5; The following license holders may operate as a motor vehicle dealer without obtaining a motor vehicle dealer's license or paying an additional fee: manufacturer, factory branch, distributor, and distributor branch. Any of these license holders who operate as a motor vehicle dealer may sell motor vehicles at retail only at an established salesroom.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Licenses expire on June 30, and applications and fees must be received prior to that date.

TAX ELASTICITY

An estimate of the tax elasticity was not taken.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

NORTH CAROLINA STATUTES

20-7, 11, 14, 26, 37.7

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	58,017,462	11.0	5.9
1995-96	68,439,883	18.0	6.7
1996-97	68,124,912	-0.4	6.4
1997-98	70,094,961	2.9	6.4
1998-99	62,278,971	-11.2	5.6

BASE AND RATE

There are several bases and corresponding rates for the issuance or reissuance of operator licenses. These include: 1) the basic operator's license (Class C) which can be issued for a period of four to eight years at a cost of \$2.50 per year; 2) operator licenses for large vehicles restricted to intrastate usage (Class A or B) which can be effective for four to eight years at a cost of \$3.75 per year; 3) a limited learner's permit and a limited provisional license for persons less than 18 years old for a fee of \$10. The following fees are levied for Commercial Driver Licenses (CDL): 1) Class A, B, or C with an issuance period ranging from four to eight years for a fee of \$10 per year; 2) application fee, \$20; 3) endorsement fees, \$125 per endorsement per year (this also includes a motorcycle endorsement for either regular or CDL licenses). After registration, Class A, B, and C driver license holders are placed on a five year renewal cycle. In addition the following fees apply: 1) duplicate license, \$10; 2) copy of license record for period up to three years, \$5; 3) a seven-year extract copy of a driver license record, \$5; 4) a certified true copy of complete license record, \$7; 5) a fee of \$10 for a nonoperator's identification card which is effective for a period of four to eight years; 6) a restoration fee of \$25 to restore a license revoked, suspended, or canceled for motor vehicle law violations, and \$50 if revoked for driving under the influence; and 7) a \$50 charge when a licensee fails to surrender a driver's license that is revoked.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes, except \$25 of the \$50 fee if a license is revoked for driving under the influence, which is deposited in the General Fund.

TAX CALENDAR

License fees and other charges are due at the time of purchase of the license or service.

TAX ELASTICITY

Collections are related to the size, composition and growth of population. During the past decade collections have increased at about one-third the rate of personal income. However, as a result of the phase-in of renewals from four to five years, there is not a significant statistical relationship between collections and personal income.

COMPARISON WITH OTHER STATES

North Carolina's driver's license tax is a multifaceted levy consisting of several components. Comparative information was only obtained on operator's license fees. All 50 states levied operator's license fees. Operator's licenses are typically for a four-year period, with only a handful of states (including North Carolina) having a different license period. Converting these license fees to an annual basis, it was found that rates ranged from \$1.00 to \$10.75. Information was found for 48 states, although the other two states did issue driver's licenses. The average fee in the nation is \$4.14. North Carolina's levy converts to an annual fee of \$2.50. Thirty-nine states had a higher levy than North Carolina, seven the same, five lower, and two unknown.

DISTRIBUTION OF DRIVERS' LICENSE FEES: 1997

Fees	Number of States
\$1.00 - \$1.99	4
2.00 - 2.99	9
3.00 - 3.99	15
4.00 - 4.99	6
5.00 and Above	14
Unknown	2

Source: *Highway Statistics, 1997*, Federal Highway Administration, Washington, D.C., March 1999

FINANCIAL SECURITY RESTORATION FEE**NORTH CAROLINA STATUTES**

20-309, 20-7(i)

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	5,366,328	3.4	0.6
1995-96	5,916,500	10.3	0.6
1996-97	5,311,473	-10.2	0.5
1997-98	5,720,651	7.7	0.5
1998-99	7,003,646	22.4	0.6

BASE AND RATE

A \$50 civil penalty fee is charged to maintain a license plate when there has been a lapse of insurance coverage, provided action is taken within 10 days. If no action is taken and the plate is revoked, a \$50 restoration fee is charged when the vehicle is relicensed after a 30-day plate surrender period.

DISTRIBUTION

Revenue deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Payment is made at the time of purchase.

TAX ELASTICITY

An estimate of the tax elasticity was not taken.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

GASOLINE INSPECTION TAX

NORTH CAROLINA STATUTES

119-4 to 119-22

ADMINISTERED BY

Department of Revenue

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	11,227,469	4.5	1.2
1995-96	11,689,883	4.1	1.1
1996-97	11,676,667	-0.1	1.1
1997-98	11,804,079	1.1	1.1
1998-99	12,491,183	5.8	1.1

BASE AND RATE

A tax of 1/4 cent per gallon levied on all petroleum products used as motor fuel is deposited in the Highway Fund. A similar tax levied on aviation gasoline, jet fuel, and nonhighway use motor fuels goes into the General Fund.

DISTRIBUTION

This revenue is deposited in both the Highway and General Funds. Inspection taxes on fuels used on the highways are deposited into the Highway Fund. After deducting funds to administer and enforce the provisions of the inspection laws and the cost of collection, the balance of the revenue is credited in equal amounts to the Commercial Leaking Petroleum Underground Storage Cleanup Fund and the Non-commercial Leaking Underground Petroleum Storage Tank Cleanup Fund. Even though these funds are earmarked to Funds outside the Highway Fund, for accounting purposes, they are considered Highway Fund revenue. Approximately 50% of Highway Fund revenue from the inspection fee is so earmarked. Further, inspection taxes levied on fuels not used on the highways are deposited in the General Fund. Only Highway Fund revenue is shown above.

TAX CALENDAR

Taxes are paid by wholesale distributors of motor fuel (gasoline and diesel) to the major oil companies at the terminal rack. Taxes are paid by wholesale distributors of alternative fuels (propane and compressed natural gas--CCNG) directly to the Department of Revenue. Taxes on motor fuels are due by the twenty-second of the month for motor fuels and by the twenty-fifth of the month for alternative fuels for the previous month's activity.

TAX ELASTICITY

The gasoline inspection tax is relatively unresponsive to changes in personal income. For further information see "Motor Fuel Tax" in the Highway Fund section.

COMPARISON WITH OTHER STATES

As of January 1998, 16 states levied gasoline inspection taxes with rates ranging from 0.0008 cent per gallon in Indiana to three cents per gallon in Wisconsin. Two states have higher fees than North Carolina, one the same, twelve lower, and one unknown. (Source: *Highway Taxes and Fees, 1998*, Federal Highway Administration, Washington, D.C., 1999.)

NORTH CAROLINA STATUTES

20-86.1, 20-87.1, and 20-85

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	38,346,814	5.3	3.9
1995-96	42,255,511	15.4	4.3
1996-97	41,479,027	-6.3	3.9
1997-98	41,890,137	1.0	3.8
1998-99	50,791,801	21.3	4.6

BASE AND RATE

Operators of vehicles engaging in interstate traffic find it advantageous to enter the International Registration Plan (IRP). Vehicles licensed under the IRP are taxed according to the regulations governing the plan and are not taxed under the other vehicle categories. Under the IRP, each North Carolina based vehicle is taxed according to the following formula:

$$\text{Fees} = \frac{A}{B} \times C$$

where: A = total mileage driven in North Carolina plus total mileage driven in non-IRP states
 B = total mileage driven
 C = the appropriate levy computed from the weight and rate schedule

In addition, each vehicle registered in another IRP state and apportioned into North Carolina is taxed according to the same formula, except "A" now represents only the total mileage driven in North Carolina. The weight and rate schedule under this plan follows:

SCHEDULE OF WEIGHTS AND RATES
(Per 100 lbs. of Gross Weight)

Weight	Rate Per lb.
Up to 4,000 lbs.	\$ 0.46
4,001 to 9,00 lbs.	0.63
9,001 to 13,000 lbs.	0.78
13,001 to 17,000 lbs.	1.06
Over 17,000 lbs.	1.20

Vehicles in the "over 17,000" pound category pay an additional tax of \$3.00. Replacement plates for all vehicles are \$9.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

The annual renewal period for the purchase of plates is between January 1 and February 15 for the current calendar year.

TAX ELASTICITY

IRP collections depend on the number of registered trucks, which are related to economic conditions. Although personal income is a good proxy the statistic relationship was not strong. Collections were very volatile recently as a result of administrative difficulties in other states. An elasticity was not estimated.

COMPARISON WITH OTHER STATES

In 1999, there were 48 states and three Canadian provinces participating in the International Registration Plan (IRP). Of the 48 states that are in the IRP (for five axle tractor trailers) the registration fee ranges from \$120 to \$2,892, and had a national average of \$1,237. North Carolina's tax rate was \$973, and ranked 36th out of the 48 states. (Source: *International Registration Plan Section*, North Carolina Department of Transportation, Raleigh, 1999; and *Highway Fees and Taxes, 1998*, Federal Highway Administration, U.S. Department of Transportation, Washington, D.C., 1999.)

NORTH CAROLINA STATUTES

105-430 to 105-449.01, 105-449.60 to 105-449.139

ADMINISTERED BY

Department of Revenue

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	669,096,603	0.5	68.5
1995-96	697,048,503	4.2	67.7
1996-97	730,926,335	4.9	68.8
1997-98	762,551,945	4.4	69.3
1998-99	762,888,007	0.2	69.6

BASE AND RATE

As of January 1, 2000, an excise tax of 22 cents per gallon is levied on all motor fuel sold, distributed or used in the state. The tax is composed of a 17.5 cents per gallon levy, plus 7% of the average wholesale price of motor fuels. The wholesale tax is adjusted every six months, and cannot fall below 3.5 cents per gallon tax. It should be noted that in addition to these levies a 1/4 cent per gallon inspection tax is in effect. These revenues are recorded under a separate schedule. See "Gasoline Inspection Tax" in this section.

Fuel sold to the U.S. Government, state government agencies, or used in public school transportation (including fuel for automobiles owned by school boards) is exempt from the tax. A refund of the excise tax less one cent per gallon is given to counties, municipal corporations, volunteer fire departments, sheltered workshops recognized and approved by the Department of Human Resources, volunteer rescue squads, purchases of fuel not used on the highway, taxicabs transporting fare-paying passengers, and private nonprofit organizations operating motor vehicles under contract or at the express designation of a unit of local government, and off-highway use of special mobile equipment. Further, there is a refund of 33 1/3% of the average tax paid less one cent per gallon for the tax year on fuel used in concrete mixing vehicles, solid waste compacting vehicles, and certain agricultural and tank delivery vehicles.

DISTRIBUTION

Of these collections 1/2 cent per gallon is dedicated as follows: 1) Commercial Leaking Petroleum Underground Storage Tank Cleanup Fund--19/32; 2) Noncommercial Leaking Petroleum Underground Storage Tank Cleanup Fund--3/32; and 3) Water and Air Quality Account--10/32. Only Highway Fund revenue is shown above.

TAX CALENDAR

Taxes are paid by wholesale distributors of motor fuel (gasoline and diesel) to the major oil companies at the terminal rack. Taxes are paid by wholesale distributors of alternative fuels (propane and compressed natural gas--CCNG) directly to the Department of Revenue. Taxes are due by the twenty-second of the month for motor fuels, and by the twenty-fifth of the month for alternative fuels for the previous month's activity.

TAX ELASTICITY

Motor fuel tax collections are related to fuel consumption and the price of motor fuels. Fuel consumption depends on the number of vehicle miles driven and vehicle efficiency. Motor fuel prices have declined in recent years. There is a relatively strong relationship between collections and state personal income ($R^2 = 0.92$). That is, 92% of the change in motor fuel tax collections is related to changes in state personal income. Because the tax is predominately a per-unit levy, and as a result of the decline in motor fuel prices, collection growth lags behind the growth of personal income. It is estimated that the motor fuel collections have an income elasticity of 0.34. That is, for every 10% increase in personal income, motor fuel tax collections increase by 3.4%.

COMPARISON WITH OTHER STATES

All states levy motor fuel taxes on gasoline, diesel fuel, and gasohol. In addition, several states have different levies on jet and other fuels. Sales taxes are applied on motor fuels, in addition to the excise tax in nine states, and separate local motor fuel taxes are applied in selected jurisdictions in nine states.

As of July 1, 1999, state excise taxes on gasoline ranged from 7.5 cents per gallon in Alabama to 32 cents per gallon in Wyoming. The average state gasoline tax was 19.9 cents per gallon. North Carolina's rate was 21.7 cents per gallon, and was the eighteenth highest tax in the nation. The average motor fuels tax in the Southeast was 17.9 cents per gallon, and the average for the eleven largest states was 17.3 cents per gallon.

**STATE GASOLINE TAX RATES FOR THE UNITED STATES,
SOUTHEAST, ELEVEN MOST POPULATED STATES,
NORTH CAROLINA AND SURROUNDING STATES,
AS OF July 1, 1999**

State	Tax Rate
United States	19.9
Southeast	17.9
Eleven Largest States	17.3
North Carolina	21.7(*)
Surrounding States	
Kentucky	16.4
South Carolina	16.0
Tennessee	21.4
Virginia	17.5

Source: Federation of Tax Administrators, 1999.

(*)Effective January 1, 2000, North Carolina had a tax rate of 22 cents per gallon.

NORTH CAROLINA STATUTES

20-119

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	1,774,048	31.4	0.2
1995-96	1,974,662	11.3	0.2
1996-97	2,064,440	4.6	0.2
1997-98	2,196,868	6.4	0.2
1998-99	2,439,250	11.0	0.2

BASE AND RATE

Upon receipt of application, the state may issue at its discretion special permits granting permission to operate overweight/oversized motor vehicles on North Carolina highways. For a single trip a permit is \$10, while an annual permit is \$50 per vehicle.

Persons and firms operating more than one vehicle may apply for an annual permit for all overweight/oversized vehicles at the following rate:

ANNUAL PERMIT SCHEDULE

Number of Vehicles	Annual Permit Rate Per Vehicle
First 50	\$ 50
51 - 100	40
101- 150	30
Over 150	20

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Revenue is received at the time the permit is issued.

TAX ELASTICITY

An estimate of the tax elasticity was not taken.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

NORTH CAROLINA STATUTES

20-118

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	5,264,423	-1.4	0.5
1995-96	5,377,171	2.1	0.5
1996-97	5,867,612	9.1	0.6
1997-98	8,021,271	36.7	0.7
1998-99	8,069,143	0.6	0.7

BASE AND RATE

For each violation of the license, permit, or axle grouping weight as established by statute, the owner must pay to the Division of Motor Vehicles, a penalty, per violation, for each pound of weight in excess of the maximum limit.

The following penalty schedule applies:

Amount of Pounds Over Maximum	Penalty Per Pound
First 1000 lbs.	2 cents
Second 1000 lbs.	4 cents
Additional Pounds	10 cents

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Payments are due at the time the penalty is issued.

TAX ELASTICITY

An estimate of the tax elasticity was not taken.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

NORTH CAROLINA STATUTES

20-48.c

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	3,713,939	6.6	0.4
1995-96	3,815,570	2.7	0.4
1996-97	3,552,819	-6.9	0.3
1997-98	3,890,284	9.5	0.4
1998-99	4,600,685	18.3	0.4

BASE AND RATE

A \$50 fee is levied if the Division of Motor Vehicles has to give the taxpayer notice of the revocation of either the driver license or registration plate.

DISTRIBUTION

The revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Revenue is due at time of process.

TAX ELASTICITY

An estimate of the tax elasticity was not taken.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

NORTH CAROLINA STATUTES

20-85

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	6,824,024	-39.9	0.7
1995-96	9,342,022	36.9	0.9
1996-97	2,394,959(1)	-74.4	0.2
1997-98	2,454,399	2.5	0.2
1998-99	2,488,747	1.4	0.2

- (1) The remaining portion of the certificate of title registration fees were dedicated to the Highway Trust Fund.

BASE AND RATE

Charges are rendered for the following items: 1) salvage titles, \$10; 2) failure to transfer title within the required time, \$10; and 3) certified copy of a title, \$4. Collections under this schedule also consist of 1/7 of the \$35 fee for each application for certificate of title. All other revenue goes to the Highway Trust Fund. See "Title and Registration Fee" in the Highway Trust Fund section.

DISTRIBUTION

This revenue is used for highway purposes.

TAX CALENDAR

Taxes are paid at the time of title and registration purchase.

TAX ELASTICITY

An estimate of the tax elasticity was not taken.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

NORTH CAROLINA STATUTES

20-183.1 through 20-183.8, 20-128.2, 20-385

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95(1)	4,471,972	-30.4	0.5
1995-96	3,736,421	-16.5	0.3
1996-97	3,434,382	- 8.1	0.3
1997-98	3,918,772	14.1	0.4
1998-99	4,087,029	4.3	0.4

(1) In order to comply with a Federal mandate, revenue from emission inspections is placed in an interest bearing account to support the emission program.

BASE AND RATE

Inspection stations are licensed by the state. Annually inspections are required for all motor vehicles that are registered in North Carolina and use North Carolina's highways and streets. After passing inspection an inspection sticker is affixed on the windshield. Safety equipment inspection fees total \$9.25 per vehicle inspected. Of that total, \$8.25 is for the inspection and remains with the inspection station. The remaining \$1.00 is for the inspection sticker with \$0.75 going to the State Highway Fund, \$0.15 earmarked to the Department of Insurance for the Volunteer Rescue/EMS Fund, and \$0.10 dedicated to the Rescue Squad Workers' Relief Fund. Inspections are required for both safety and exhaust systems in Cabarrus, Durham, Forsyth, Gaston, Guilford, Mecklenburg, Orange, Union, and Wake counties. Of the \$19.40 inspection fee for inspecting both safety and exhaust standards, \$17 is for the inspection and remains with the inspection station. The remaining \$2.40 is for the inspection sticker with \$1.80 going to the emission program, \$0.35 allocated to the Division of Air quality, and \$0.25 distributed to the Department of Insurance for the Volunteer Rescue/EMS Fund, and \$0.10 for the Rescue Squad Relief Fund.

DISTRIBUTION

Revenue from safety inspections is divided between the inspection station and the state as stated under "Base and Rate." In addition, revenue from emission inspections is placed under a separate account, and is used to support the emission program. Only Highway Fund revenue is shown above.

TAX CALENDAR

Revenue is collected at the time of the inspection.

TAX ELASTICITY

An estimate of the tax elasticity was not taken.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

STAGGERED REGISTRATION FEES**NORTH CAROLINA STATUTES**

20-66, 20-85, 20-87

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	120,819,634	3.8	12.4
1995-96	124,989,515	3.5	12.1
1996-97	131,363,098	5.1	12.4
1997-98	134,245,132	2.2	12.2
1998-99	137,887,521	2.7	12.4

BASE AND RATE

All private passenger hauling vehicles (automobiles and motorcycles) and all private hauler vehicles licensed for 4,000 pounds (private pick-up trucks and vans) are required to enter the staggered registration plan. A fee of \$20 is levied on private passenger cars of 15 passengers or less, and a fee of \$23 is levied on private passenger cars of more than 15 passengers. Private pick-up trucks and vans licensed for 4,000 pounds pay a license plate fee of \$21.50. Private passenger motorcycles pay a license plate fee of \$9, except when designed to transport property or additional passengers, and the tax is then \$16. There is a \$1 processing charge for registrations by mail.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

All registrations are for a twelve-month period from the date of the vehicle's initial registration.

TAX ELASTICITY

Fees are directly related to the number of motor vehicles registered and indirectly related to state personal income. However, the relationship between collections and state personal income is strong ($R^2 = .98$). That is, 98% of the changes in collections are statistically related to changes in state personal income. Collections grow at a slower rate than state personal income since they are on a per unit basis, and are not responsive to inflation. It is estimated that collections have an income elasticity of 0.49. That is, for every 10% change in state personal income, collections change by 4.9%.

COMPARISON WITH OTHER STATES

All 50 states levy automobile registration fees. Fees may be based on vehicle weight, number of passengers carried, engine size, horsepower, retail price, or some combination of the above. Rates often vary within a state depending on the vehicle. Tax rates for the typical automobile ranged from \$8 in Arizona to \$100.75 in Oklahoma. The median tax rate for the nation was \$30.90. Higher automobile registration fees were recorded in 39 states, three including North Carolina had a rate of \$20, and 8 had lower rates. A comparison of registration fees for small trucks and motorcycles was not undertaken. (Source: *Highway Taxes and Fees*, 1998, Federal Highway Administration, U.S. Department of Transportation, Washington, D.C., 1999.)

NORTH CAROLINA STATUTES

20-85 and 20-88

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	48,846,251	4.9	5.1
1995-96	50,786,525	4.0	4.9
1996-97	54,046,254	6.4	5.1
1997-98	53,526,079	-1.0	4.9
1998-99	56,781,624	6.1	5.1

BASE AND RATE

For the purpose of taxation, the determination of weight is based on combined gross vehicle weight. A minimum fee of \$17.50 for a farm vehicle and \$21.50 for a nonfarm vehicle is levied under this schedule.

Vehicles in the truck category consist of private vehicles such as vans and pick-up trucks over 4,000 pounds and commercial trucks. Commercial trucks generally carry their own products both interstate and intrastate, but do not operate under the authority of either the Interstate Commerce Commission or the North Carolina Utilities Commission. They basically include service trucks, milk trucks, soft drink bottle trucks, beer trucks, and others. There is no separate commercial truck license plate.

Vehicles in the truck category are subject to taxation according to the following rate and weight schedule:

SCHEDULE OF WEIGHTS AND RATES
(Per 100 lbs. of Gross Weight)

Weight/Rate Bracket	Farm	Non Farm
Up to 4,000 lbs.	\$ 0.23	\$ 0.46
4,001 to 9,000 lbs.	0.29	0.63
9,001 to 13,000 lbs.	0.37	0.78
13,001 to 19,000 lbs.	0.51	1.06
Over 19,000 lbs.	0.58	1.20

An additional \$3 charge per plate is levied

In addition, camping trailers and house trailers are subject to a flat \$7 annual registration fee. Other trailers are subject to a flat annual fee of \$10. A multi-year license plate for trailers or semi trailers is available for \$75. Wreckers fully equipped weighing 7,000 pounds or less pay \$75 for a plate and those over 7,000 pounds pay \$148.

Replacement plates for all vehicles are \$10.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

The annual renewal period for the purchase of plates is between January 1 and February 15 for the current calendar year.

TAX ELASTICITY

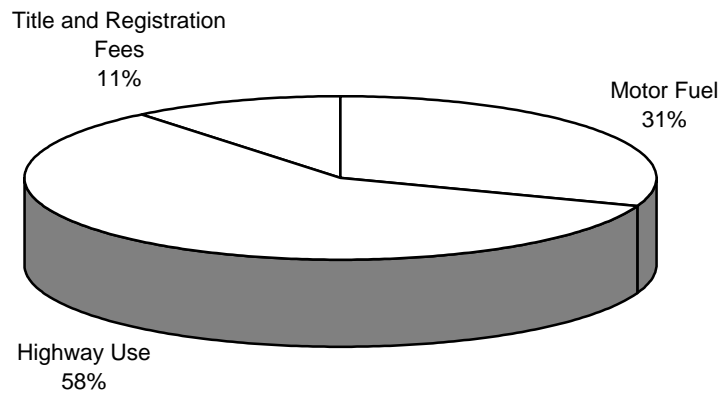
Truck plate fee collections are per unit levies, and thus, they grow at a slower rate than personal income. There is a significant statistical relationship between collections and personal income, $R^2 = 0.81$. It is estimated that collections have an income elasticity of 0.41. That is, for every 10% change in personal income collections change by 4.1%.

COMPARISON WITH OTHER STATES

All states levy truck license plate fees. Most states have a fee schedule based on the empty weight of the vehicles. All but eight states grant preferential tax treatment to farm vehicles. The typical registration fee for single-unit non farm trucks was higher than in North Carolina in 16 states and lower in 33. Fees ranged from \$11.25 to \$504, with a median of \$172. North Carolina's tax rate was \$215. The typical levy on farm trucks was higher in 16 states than in North Carolina, one the same, and lower in 32. Fees ranged from \$10 to \$425, with a median rate of \$64. North Carolina's tax rate was \$109. For large trucks (five axle tractor trailers) see, *International Registration Plan* in this section. (Source: *Highway Taxes and Fees, 1998*, Federal Highway Administration, U. S. Department of Transportation, Washington, D.C., 1999.)

Highway Trust Fund Taxes

CHART 5
NORTH CAROLINA HIGHWAY TRUST FUND TAX COLLECTIONS
(1998-99)



Motor Fuels	\$254,740,680
Highway Use	489,513,431
Title and Registration	90,252,512

Total	\$834,506,623

NORTH CAROLINA STATUTES

105-187.1 to 105-187.12

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
1994-95	364,648,618	10.3	54.9
1995-96	397,273,096	9.0	56.2
1996-97	407,577,335	2.6	55.3
1997-98	453,226,656	11.2	57.0
1998-99	489,513,431	8.0	58.7

BASE AND RATE

A 3% tax with a \$1,500 ceiling is levied on the retail price of all motor vehicles sold and registered in North Carolina. The tax on commercial vehicles is 3% with a maximum tax of \$1,000. Motor vehicles purchased in other states and registered in North Carolina are also subject to the tax. The retail price of the vehicle is the net purchase price after trade.

The tax rate on the gross receipts from the long-term (365 continuous days or more) lease or rental of a motor vehicle is 3% with a maximum tax of \$1,500. Trade-in allowances are permitted. The tax rate on short-term (less than 365 continuous days) lease or rental of a motor vehicle is 3%. Short-term rental or leases are accounted for under the sales and use tax in the General Fund.

Exemptions include: 1) gifts between spouses or parent and child; 2) transfers by will or intestacy; 3) distribution of marital property as a result of divorce; 4) sales to a motor vehicle dealer for resale; 5) transfer to the insurer of a vehicle because the vehicle is a salvage vehicle; 6) transfer of vehicle to a handicapped person from the Department of Human Resources after the vehicle has been specially equipped; 7) transfer of a vehicle to a local board of education for use in drivers' education; and 8) transfer because of a change the owner's name. Partial exemptions, with a maximum tax of \$40 applies when a certificate of title is issued as a result of transfer of a motor vehicle: 1) to a secured party who has a perfected security interest in the motor vehicle; and 2) to a partnership, limited liability company, or

corporation as an incident to the formation of the company, when no gain arises from the transfer. A maximum tax of \$150 applies when a title is issued for an out-of-state vehicle, that at the time of applying for the certificate of title, is or has been titled in another state for at least 90 days.

DISTRIBUTION

Of total collections, \$170 million will be transferred annually to the General Fund. The remaining revenue will be deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are due upon sale or registration.

TAX ELASTICITY

Sales of motor vehicles are strongly related to the level of personal income, having an $R^2 = 0.98$. That is 98% of changes in collections are related to personal income. Motor vehicle sales have been very strong in North Carolina in the last few years, resulting in a tax elasticity of 1.58. That is, for every 10% change in personal income, collections change by 15.8%.

COMPARISON WITH OTHER STATES

Forty-six states levy a sales or excise taxes on automobiles, with 36 states having a sales tax and 10 an excise tax. In lieu of a general sales and use tax, North Carolina levies a highway use tax on the retail sale price of motor vehicles. Only two states, North Carolina and South Carolina, have a tax ceiling. Tax rates ranged from 1.5% to 7% among the states, with a median rate of 5%. Three states had a lower tax rate than North Carolina, 4 the same (including North Carolina), while 39 had higher rates. Of the 12 largest states, North Carolina had the lowest tax rate, and of the 11 Southeastern states, North Carolina had the second lowest rate.

**STATE SALES AND EXCISE TAX
RATES ON AUTOMOBILES**

Tax Rate	Number of States
No Levies	4
1.0% - 1.9%	1
2.0 - 2.9	2
3.0 - 3.9	4
4.0 - 4.9	11
5.0 - 5.9	14
6.0 - 6.9	12
7.0 and Above	2

Source: *State Tax Handbook, 1999*, Commerce Clearing House, Chicago, Illinois, December 1998.

NORTH CAROLINA STATUTES

20-85

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
1994-95	2,567,991	-4.3	0.4
1995-96	2,607,998	1.6	0.4
1996-97	2,443,177	-6.3	0.3
1997-98	2,292,215	-6.2	0.3
1998-99	2,335,851	1.9	0.3

BASE AND RATES

There is a \$10 charge for each application for recording a supplementary lien, and a \$10 charge for each application for removing a lien from a certificate of title.

DISTRIBUTION

Revenue is deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are paid at the time of purchase.

TAX ELASTICITY

Elasticity was not estimated.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

NORTH CAROLINA STATUTES

105-430 to 105-449.01, 105-449.1 to 105-449.139

ADMINISTERED BY

Department of Revenue

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
1994-95	223,032,201	0.5	33.6
1995-96	232,662,410	4.3	32.9
1996-97	243,731,232	4.8	33.1
1997-98	254,604,049	4.5	32.0
1998-99	254,740,680	0.1	30.5

BASE AND RATE

See "Motor Fuels Tax" in the Highway Fund section.

DISTRIBUTION

All motor fuel tax collections that are placed in the Highway Trust Fund are used for highway construction. For a description of the distribution of all motor fuel tax collections, see "Motor Fuel Tax" in the Highway Fund section.

TAX CALENDAR

See "Motor Fuels Tax" in the Highway Fund section.

TAX ELASTICITY

See "Motor Fuels Tax" in the Highway Fund section.

COMPARISON WITH OTHER STATES

See "Motor Fuels Tax" in the Highway Fund section.

TITLE AND REGISTRATION FEES**NORTH CAROLINA STATUTES**

20-85

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
1994-95	74,508,293	13.8	11.2
1995-96	74,418,598	-0.1	10.5
1996-97	83,274,171	11.9	11.3
1997-98	84,669,551	1.7	10.7
1998-99	87,916,661	3.8	10.5

BASE AND RATE

Charges are rendered for issuance of certificates of title, transfer of registration, and replacement of registration plate fees according to the following schedule: 1) each application for certificate of title, \$35; 2) each application for duplicate or corrected certificate of title, \$10; 3) each application of reprocessor for certificate of title, \$10; 4) each transfer of registration, \$10; 5) each set of replacement registration plates, \$10; and 6) each application for duplicate registration certificate, \$10.

In lieu of the regular \$35 charge for certificate of title, there is a \$50 charge for one-day service.

DISTRIBUTION

Revenue is deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are paid at the time of title and registration purchase.

TAX ELASTICITY

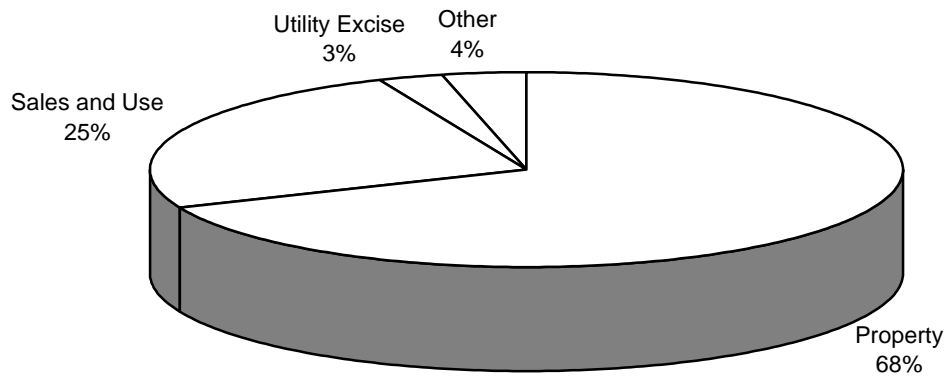
Title fees are directly related to the number of new and used vehicle sales, and vehicle transfers. Although economic conditions play a role, the number of titles registered depend strongly on demographic factors. However, the relationship between collections and state personal income is quite strong ($R^2 = 0.97$). That is, 97% of the changes in collections are related to changes in state personal income. It is estimated that collections have an income elasticity of 1.05. That is, for every 10% change in personal income, collections change by 10.5%.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

Local Government Taxes

CHART 6
NORTH CAROLINA LOCAL TAX COLLECTIONS
RECEIVED BY LOCAL GOVERNMENT
(1998-99)



Property	\$4,145,561,429
Sales and Use	1,505,297,284
Utility Excise	161,117,265
Other	223,975,760

Total	\$6,035,951,738

EXCISE TAX ON BEER AND WINE--LOCAL SHARE

NORTH CAROLINA STATUTES

105-113.68 to 105-113.104

ADMINISTERED BY

Department of Revenue

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95(1)	n.a.	n.a.	n.a.
1995-96	22,451,744	7.1	0.5
1996-97	23,210,614	3.4	0.4
1997-98	23,599,549	1.7	0.4
1998-99	24,424,343	3.5	0.4

(1) Prior to fiscal year 1989-90, local government received an earmarked portion of the state excise tax on beer and wine. From 1989-90 through 1994-95, the earmarking provisions were replaced by a fixed annual General Fund appropriation. Effective July 1, 1995, the earmarking provisions were reinstated.

BASE AND RATE

The state levies an excise tax of 21 cents per liter on unfortified wine, 24 cents per liter on fortified wine, and 53.177 cents per gallon on beer. (This is equivalent to 5 cents per can.). The state earmarks 23.75% of the excise tax on malt beverages, 62% of the excise tax on unfortified wine, and 22% of the excise tax on fortified wine to local jurisdictions in which such sales are allowed.

DISTRIBUTION

The amount of the local share distributed to each county and municipality is determined on the basis of population in the areas where such sales are permitted. The revenue allocated to local government can be used for general purposes. The General Fund retains the remaining revenue.

TAX CALENDAR

Wholesalers and importers of beer and wine must file returns including monthly tax payments by the fifteenth day of the month for the previous month's activity. The local share of the wine and beer excise tax is allocated from collections received during the fiscal year ending March 31. The portion going to each county and municipality is computed and distributed to localities May 30.

TAX ELASTICITY

The sales of beer and wine are related to the composition of population, taste, price, and income. Personal income is used as a proxy for these variable. Tax collections were strongly related to the level of personal income, as depicted by a computed R^2 of 0.98. That is, 98% of changes in tax collections are related to changes in personal income. Growth in collections is more closely related to demographics, and is not very responsive to changes in personal income. The estimated tax elasticity was 0.54. That is, for every 10% change in personal income, tax collections change by 5.4%.

COMPARISON WITH OTHER STATES

A comparison was not undertaken.

NORTH CAROLINA STATUTES

105-228.28 to 105-228.36

ADMINISTERED BY

County Governments

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	20,576,251	5.1	0.4
1995-96	22,899,557	11.3	0.4
1996-97	25,966,185	13.4	0.4
1997-98	30,311,638	16.7	0.5
1998-99	34,787,017	14.8	0.5

BASE AND RATE

A tax rate of \$1.00 on each \$500, or fraction thereof, is levied on the value of each deed, instrument, or writing by which any interest in real property is conveyed to another person. The tax is payable by the transferor to the register of deeds in the county in which the property is situated.

This tax is imposed on transactions conveying an interest in real estate located in North Carolina. The following conveyances are exempt from the tax: 1) operation of law; 2) lease for a term of years; 3) will, intestacy, or gift; 4) merger or consolidation; 5) instruments securing indebtedness; 6) transfers by a governmental unit; and 7) transfers where no consideration in property or money is due or paid by the transferee to the transferor.

DISTRIBUTION

The tax is administered by each county. One-half the net proceeds remains with the respective county and is used for general purpose, and one-half of the net proceeds are remitted to the Department of Revenue. Of the non-county portion of the proceeds, a county may retain 2% as compensation for the county's cost in collecting and remitting the state's share of the tax. Of the remainder 75% is credited to the Parks and Recreation Trust Fund, and 25% to the Natural Heritage Trust Fund.

TAX CALENDAR

The tax is paid at the time of the transfer by the transferor to the county registrar of deeds.

TAX ELASTICITY

Real estate transactions are influenced by personal income and demographic factors. There is a modest relationship between collections and personal income as depicted in an R^2 of 0.72. That is, 72% of the change in tax collections is related to personal income. As a result of the strong real estate market, collections are very responsive to changes in personal income, with a tax elasticity of 1.14. That is, for every 10% increase in personal income, tax collections expand by 11.4%.

COMPARISON BETWEEN STATES

See "Excise Tax on Conveyances" in General Fund section.

NORTH CAROLINA STATUTES

Not part of General Sessions, citations in Session Laws.

ADMINISTERED BY

County Governments

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	4,234,488	3.9	0.1
1995-96	4,605,676	8.8	0.1
1996-97	4,964,941	7.8	0.1
1997-98	6,340,428	27.7	0.1
1998-99 (1)	7,000,000	10.4	0.1

(1) Estimate. Actual collection figures are not available.

BASE AND RATE

A maximum tax rate of 1% is imposed on the sale value of any private real estate transaction or the value of interest conveyed in such a transaction if the lease is at least 10 years long.

DISTRIBUTION

To date, the tax is levied by seven counties: Camden, Chowan, Currituck, Dare, Pasquotank, Perquimans, and Washington. In all cases, tax proceeds are placed in special capital reserve funds.

TAX CALENDAR

Taxes are paid at the time of the transaction.

TAX ELASTICITY

An elasticity was not computed.

COMPARISON WITH OTHER STATES

Information is not available on land transfer taxes.

NORTH CAROLINA STATUTES

18B-2, 15

ADMINISTERED BY

Local Alcoholic Beverage Control Boards

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	5,442,892	3.9	0.1
1995-96	5,698,879	4.7	0.1
1996-97	6,056,704	6.3	0.1
1997-98	6,392,073	5.5	0.1
1998-99	6,925,829	8.4	0.1

BASE AND RATE

With voter approval, or special legislation, localities are permitted to sell liquor by the drink in qualifying restaurants, hotels, convention centers, community theaters, sports clubs, tour boats, and private clubs. A tax of \$20 per four liters (of which \$9 is allocated to local government) is levied on liquor purchased for sale by the drink. Liquor must be purchased at ABC stores. As of January 1, 2000, 59 cities and 31 counties approved liquor by-the-drink sales.

DISTRIBUTION

Of the \$20 liquor by-the-drink levy, \$1 is earmarked for the Department of Human Resources for alcoholic rehabilitation, \$10 goes to the state General Fund, and \$9 remains with local government. The local proceeds remain at the county or municipal ABC stores, and are distributed to counties and municipalities as ordinary profits of the ABC stores. Only the local share is shown above.

TAX CALENDAR

Profits are distributed quarterly to the respective counties and municipalities.

TAX ELASTICITY

The relationship between tax collections and personal income was not statistically significant.

COMPARISON WITH OTHER STATES

No other state has such a tax.

NORTH CAROLINA STATUTES

105-33 to 105-113.1, 153A-152, 160A-211.

ADMINISTERED BY

Counties and Municipalities

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	54,738,764	7.9	1.1
1995-96	61,725,545	12.8	1.3
1996-97	65,691,336	6.4	1.3
1997-98	71,071,269	8.2	1.3
1998-99	76,813,950	8.1	1.3

BASE AND RATE

A county may levy privilege licenses taxes on trades, occupations, professions, businesses, and franchises to the extent authorized under Schedule B (state privilege license tax) of the Revenue Act, and by other acts of the General Assembly. The type of business a county may tax and the amount of the tax or tax rate is typically stated under Schedule B.

Except as otherwise provided in the law, a city may levy privilege license taxes on all trades, occupations, professions, businesses, and franchises operating within the city. Municipalities that tax businesses are listed under Schedule B in a similar manner to counties.

DISTRIBUTION

Revenue is used for general purposes.

TAX CALENDAR

Licenses are for a 12-month period. Upon election of the local unit, the license year ends either May 31 or June 30. Payments are due on or before the end of the license year.

TAX ELASTICITY

License taxes are usually fixed levies on specified economic activities. Collections vary as businesses enter or leave specified fields (assuming no change in the law). These tax collections are related to the level of business activity as reflected by personal income ($R^2 = 0.99$). That is, 99% of the changes in collections are statistically related to changes in state personal income. One would expect these taxes to be relatively inelastic (not very responsive to changes in personal income) since they are typically per unit levies, and depend on the number of business establishments. However, it was estimated that collections have an income elasticity of 1.49. That is, for every 10% change in personal income, privilege license taxes increase by 14.9%. The high elasticity implies the establishment of new businesses and fee increases.

COMPARISON WITH OTHER STATES

A comparison with other states was not undertaken.

NORTH CAROLINA STATUTES

105-271 to 105-395

ADMINISTERED BY

The Department of Revenue supervises administration. Assessment of locally appraised property and collection of taxes is conducted by counties and municipalities.

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	3,267,967,425	8.6	68.4
1995-96	3,396,393,368	3.4	68.8
1996-97	3,620,553,362	6.6	68.7
1997-98	3,899,767,938	7.7	69.1
1998-99	4,145,561,429	6.3	68.7

DISTRIBUTION

In fiscal year 1998-99, 68.9% of property taxes was collected by counties and 31.1% by municipalities and special jurisdictions. Localities are free to spend the revenue as they see fit.

BASE AND RATE

Real estate is reappraised at least every eight years, while other property including machinery, equipment, and vehicles is appraised annually. Railroads and public utility companies are appraised annually by the Department of Revenue. The Machinery Act of 1971 imposes uniform assessment and collection procedures throughout the state. All property, except motor vehicles (registration date is the listing date), is assessed annually as of January 1 at 100% of appraised value. Unless specifically exempted, all real and personal property located in the state is subject to the tax. The following property is exempt from taxation: 1) property of the United States, North Carolina, and its political subdivisions; 2) personal property used for personal purposes except motor vehicles, mobile homes, boats, and airplanes; 3) business inventories; 4) dogs owned as pets; 5) real and personal property of religious, nonprofit charitable hospitals, educational, scientific, or literary organizations used for such purposes; 6) real and personal property used for air or water pollution abatement facilities; 7) real and personal property used exclusively for the prevention or reduction of cotton dust within a textile plant; 8) property held for export for a period of four years; 9) imported personal property awaiting further shipment; 10) personal property of nonresident servicemen;

11) up to \$20,000 of appraised value of real and personal property of elderly or permanently disabled persons with a maximum gross income of \$15,000; 12) special nuclear material held for processing or in the process of delivery; 13) tangible personal property imported from outside the United States or produced within the United States and held in a Foreign Trade Zone for approved purposes; 14) cargo containers and container chassis used for the transportation of cargo by ocean-going vessels; 15) special nuclear material held for processing; and 16) intangible property.

Tax rates vary between counties and between municipalities within counties. In 1998-99, the average countywide rate was 66.0 cents per \$100 of appraised value, and the average municipality rate was 49.0 cents per \$100 of appraised value. The average combined municipal and county rate for property located within a municipality was \$1.15 per \$100 of appraised value.

TAX CALENDAR

Property is listed with the county assessor during the month of January. Taxes are based on the assessed value as of January 1 for the year in question. Property taxes are due on September 1 for the current fiscal year and interest is added if taxes are not paid by January 5.

TAX ELASTICITY

Within certain political constraints, property tax rates are set annually to meet the budget needs. Collections reflect both increases in the stock and value of property and the willingness of governments to impose the tax. Thus, collections are only partially related to economic events. However, it is found that collections have a strong statistical relationship to changes in personal income ($R^2 = 0.99$). That is, 99% of the changes in collections are statistically related to changes in state personal income. Further, it is estimated that property taxes were modestly responsive to changes in personal income with an income elasticity of 1.05. That is, for every 10% change in personal income, property tax collections change by 10.5%. The measured elasticity reflects increases in property values, plus a willingness on the part of local officials to raise tax rates.

COMPARISON WITH OTHER STATES

Property taxes are levied by localities in all states, with a wide dispersion of appraisal and assessment rates. North Carolina relies less heavily on the property tax and has a lower property tax burden than most states. Property taxes consisted of 30.4% of state and local tax levies in the United States, while consisting of 27.4% in the Southeast, and 31.8% in the 11 most populated states. In North Carolina property taxes consisted of 21% of state and local tax collections. As of fiscal year 1995-96, the average local property tax paid per capita in the United States was \$789, while the per capita property tax burden for the Southeast was \$590, and stood at \$872 for the 11 largest states. North Carolina's per capita property tax burden was

\$472. North Carolina ranked 40th nationally in per capita property tax burden. Of the 12 Southeastern states, North Carolina ranked 6th. Of the 11 most populated states, North Carolina had the lowest per capita property tax burden. As a percent of personal income, the average citizen devoted 3.4% of their personal income to property tax payments nationally, 2.9% in the Southeast, 3.7% in the 11 most populated sates, and 2.3% for North Carolina. North Carolina ranked 40th in the nation, 6th in the Southeast, and had the lowest property tax burden as a percent of personal income of the 11 largest states. (Source: *Governmental Finances in 1995-96*, U.S. Department of Commerce, Bureau of Census, Washington, D.C., 1999.)

NORTH CAROLINA STATUTES

Not part of the General Statutes. Citations in Session Laws.

ADMINISTERED BY

County Governments

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	52,421,128	16.7	1.1
1995-96	58,288,091	11.2	1.2
1996-97	64,371,992	10.4	1.2
1997-98	71,390,103	10.9	1.3
1998-99	78,500,000(1)	10.0	1.3

(1) Estimate. Actual collection figures are not available.

BASE AND RATE

A maximum tax rate of 6% may be imposed by a county, municipality, or combination of both on the rental of any room, lodging, or similar accommodations subject to the state sales tax. The tax does not apply to accommodations furnished by charitable, educational, or religious organizations when furnished for nonprofit purposes. As of fiscal 1997-98, 63 counties and 31 municipalities levied such taxes.

DISTRIBUTION

Counties and municipalities place various restrictions on the use of the tax proceeds; however, a portion of the proceeds is usually dedicated for programs encouraging tourism.

TAX CALENDAR

Taxes are paid at the time of the transaction.

TAX ELASTICITY

A tax elasticity was not estimated.

COMPARISON WITH OTHER STATES

Information is not available on room occupancy taxes.

NORTH CAROLINA STATUTES

105-164.1 to 105-164.44A and 105-463 to 105-474

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	1,141,219,593	9.7	23.9
1995-96	1,231,938,883	8.0	25.0
1996-97	1,314,993,108	6.7	24.9
1997-98	1,390,151,275	5.7	24.6
1998-99	1,505,297,284	8.3	24.9

BASE AND RATE

Counties may levy the local government sales and use tax on those items included under the state's 4% levy. All 100 counties levy the full 2% in local government sales taxes.

DISTRIBUTION

The proceeds of the local government sales tax, less the cost of administration, are returned quarterly to the counties. The revenue from the first 1% of the local government sales tax is returned to the counties from which the tax was collected. The revenue from each of the two 1/2% local government sales taxes is allocated to the counties on a per capita basis. In April of each year, each county board of commissioners elects one of two methods to determine the distribution of revenue between the county and its municipalities. The two methods are: 1) the net proceeds of the county are divided by the sum of population of the county and its municipalities to determine a per capita amount. This amount is multiplied by the county's total population and each municipality's population to determine the allocation to each area; and 2) the net proceeds may be distributed between the county and its municipalities in proportion to the total amount of ad valorem taxes levied by each during the year fiscal year preceding the year of distribution.

TAX CALENDAR

Proceeds from the local government sales and use tax are distributed to local governments quarterly reflecting the prior quarter's collections. For further information see "Sales and Use Tax" on page 43.

TAX ELASTICITY

Sales tax collections are directly related to the level of retail sales, and since state personal income is the major determinant of retail sales. Tax collections are closely related to the level of personal income as depicted by a $R^2 = 0.99$. That is 99% of the changes in sales and use tax collections are related to changes in state personal income. It is estimated that the sales and use tax is moderately responsive to changes in personal income with an income elasticity of 1.02. That is, for every 10% change in personal income, sales and use tax collections change by 1.02%.

COMPARISON BETWEEN STATES

Localities in 32 states levy sales taxes. In most states, some discretion is allowed as to the level of the local levy. Local sales taxes range from 1/2% to 5%. Alaska has only locally administered sales taxes. The median local sales tax for the nation was 2.0%. For more information see "Sales and Use Taxes" under the General Fund section. (Source: *Tax Rates and Burdens 1997*, The District of Columbia, 1998.)

**NORTH CAROLINA
STATUTES**
105-114 to 105-129.1**ADMINISTERED BY**
Department of Revenue

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95(1)	121,579,749	n.a.	n.a.
1995-96	136,399,500	12.4	2.8
1996-97	148,932,981	9.0	2.8
1997-98	152,200,121	2.2	2.7
1998-99	161,117,265	5.9	2.7

(1) Prior to fiscal 1989-90, local government received an earmarked portion of the state excise tax on the gross receipts from intra-state services of gas, power and light, and telephone companies. From 1989-90 through 1994-95, the earmarking provisions were replaced by a fixed annual General Fund appropriation. Effective July 1, 1995, the earmarking provisions will be reinstated.

BASE AND RATE

Of the 3.22% state excise tax rate on the in-state gross receipts of gas(*), power and light, and telephone companies, 3.09 percentage points (or 96% of collections) are distributed to the respective municipalities within which these services took place. Additional taxes are levied on utility companies and distributed to the General Fund. (See Franchise Taxes--General Fund.)

(*) Effective July 1, 1999, a separate schedule for piped natural gas is created based on the monthly volume of natural gas received by the final user. The tax per therm is as follows: first 200, \$0.047; 201 to 15,000, \$0.035; 15,001 to 60,000, \$0.024; 60,001 to 500,000 \$0.015; and over 500,00, \$0.003.

DISTRIBUTION

The revenue earmarked to municipalities can be used by the respective municipality for general purposes. Effective July 1, 1999, within 75 days after the end of each calendar quarter, the Secretary must distribute to the cities (which resell natural piped gas) one half the amount of collections attributed to that city. This will be done under the new excise tax on natural gas schedule.

TAX CALENDAR

Gas, power and light, and telephone companies file quarterly returns within 30 days after the first of July, October, January, and April, for the prior quarter's economic activity. The municipal share will be determined and distributed shortly after, and is received by September 15, December 15, March 15, and June 15.

TAX ELASTICITY

Utility sales are dependent on the state of the economy which personal income is a good proxy ($R^2 = 0.98$). That is, 98% of the change in tax collections are related to changes in personal income. Collections are moderately responsive to changes in personal income, as reflected by a tax elasticity of 0.96. That is, for every 10% change in personal income, tax collections change by 9.6%.

COMPARISON WITH OTHER STATES

See "Franchise Taxes," in the General Fund Section.

Recent Tax Legislation

1996 LEGISLATIVE SESSION

REGULAR SESSION

Change in the Law	Estimated Fiscal Effect			
	1996-97	1997-98	1998-99	1999-00
GENERAL FUND				
CORPORATE INCOME TAX				
Updates North Carolina statutes to reference the March 20, 1996, Internal Revenue Code. Effective upon ratification.				Insignificant
INSURANCE TAX				
Transfers responsibility for collecting remainder of the gross premiums tax from the Department of Insurance to the Department of Revenue. Effective January 1, 1997.				None
SALES AND USE TAX				
Exempts free samples of prescription drugs distributed by the manufacturer. Effective June 21, 1996.	-0.3	-0.3	-0.3	-0.3
LOCAL GOVERNMENT				
SALES AND USE TAX				
Exempts free samples of prescription drugs distributed by the manufacturer. Effective June 21, 1996.	-0.15	-0.15	-0.15	-0.15

**1996 LEGISLATIVE SESSION
FIRST EXTRA SESSION**

Change in the Law	Estimated Fiscal Effect			
	1996-97	1997-98	1998-99	1999-00
OTHER TAXES				
UNEMPLOYMENT INSURANCE TAX				
Levies a zero rate in 1996 for employers with a positive balance in their unemployment insurance accounts. Effective January 1, 1996.	-135.0	--	--	--
Allows overdrawn employers additional time to make contributions to their accounts so that they can qualify for the zero rate in 1996. Effective January 1, 1996.	-23.5	--	--	--
Permanently reduces rate on new employers from 1.8% to 1.2% of taxable base. Effective 1996.	-5.0	--	--	--

**1996 LEGISLATIVE SESSION
SECOND EXTRA SESSION**

Change in the Law	Estimated Fissile Effect			
	1996-97	1997-98	1998-99	1999-00
GENERAL FUND				
CORPORATE INCOME TAX				
Reduces the corporate income tax rate from 7.75% to 6.9% over a four year period as follows: 1) 7.5%, effective January 1, 1997; 2) 7.25%, effective January 1, 1998; 3) 7%, effective January 1, 1999; and 4) 6.9%, effective January 1, 2000. Annual adjusts the percent of the corporate income tax that is dedicated to the Public School Capital Funds, in order to maintain the current level of funding. Effective January 1, 1997.	-\$14.2	-\$46.2	-\$79.0	-\$103.2
Expands the JOBS tax credit to include all 100 counties, up from the 50 most severely distressed. Creates five tiers for county designation based on the unemployment rate, per capita income, and population growth. Qualifying enterprises in Tier One counties can receive a tax credit of \$12,500 for each full time position created, within Tier Two counties \$4,000, within Tier Three counties \$3,000, within Tier Four counties \$1,000, and within Tier Five counties \$500. Effective August 1, 1996.	--	-\$0.7	-\$2.3	-\$4.5
Provides taxpayers that claim the federal income tax credit for increased research activities to claim a state income tax credit equal to 5% of the state's apportioned share of the taxpayer's expenditures for increasing research activities. Effective January 1, 1996.	--	-\$8.1	-\$8.6	-\$9.1
Provides a tax credit of 50% of the eligible expenditures incurred by the taxpayer for providing training for 5 or more of his eligible employees. For positions in Tier One counties the maximum credit is \$1,000. In all other counties the maximum credit is \$500. Effective July 1, 1997.	--	-\$0.5	-\$1.2	-\$1.7

1996 LEGISLATIVE SESSION **SECOND EXTRA SESSION**

Change in the Law

Estimated Fiscal Effect **1996-97 1997-98 1998-99 1999-00**

CORPORATE INCOME TAX: CONTINUED

Provides an income tax credit to manufacturers, processors, warehouses, distributors, and data processors equal to the amount spent on depreciable machinery and equipment that exceeds the county threshold. The thresholds are as follows: 1) Tier One, \$0; 2) Tier Two, \$100,000; 3) Tier Three, \$200,000; 4) Tier Four, \$500,000; and 5) Tier Five, \$1,000,000. Effective August 1, 1996.	--	-\$3.1	-\$9.2	-\$18.4
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Provides an income and franchise tax credit equal to 4.5% of the first \$100,000 of depreciable property purchased and placed in service in the state. The credit is taken in five equal installments, and sunsets in five years. Effective August 1, 1996.	-\$2.2	-\$6.8	-11.7	-\$16.9
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INDIVIDUAL INCOME TAX

Expands the JOBS tax credit to include all 100 counties, up from the 50 most severely distressed. Creates five tiers for county designation based on the unemployment rate, per capita income, and population growth. Qualifying enterprises in Tier One counties can receive a tax credit of \$12,500 for each full time position created, within Tier Two counties \$4,000, within Tier Three counties \$3,000, within Tier Four counties \$1,000, and within Tier Five counties \$500. Effective August 1, 1996.	See Corporate Income Tax			
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Provides taxpayers that claim the federal income tax credit for increased research activities to claim a state income tax credit equal to 5% of the state's apportioned share of the taxpayer's expenditures for increasing research activities. Effective January 1, 1996.	See Corporate Income Tax			
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1996 LEGISLATIVE SESSION

SECOND EXTRA SESSION

Change in the Law

Estimated Fiscal Effect 1996-97 1997-98 1998-99 1999-00

INDIVIDUAL INCOME TAX: CONTINUED

Provides a tax credit of 50% of the eligible expenditures incurred by the taxpayer for providing training for 5 or more of his eligible employees. For positions in Tier One counties the maximum credit is \$1,000. In all other counties the maximum credit is \$500. Effective July 1, 1997.

See Corporate Income Tax

Provides an income tax credit to manufacturers, processors, warehouses, distributors, and data processors equal to the amount spent on depreciable machinery and equipment that exceeds the county threshold. The thresholds are as follows: 1) Tier One, \$0; 2) Tier Two, \$100,000; 3) Tier Three, \$200,000; 4) Tier Four, \$500,000; and Tier Five, \$1,000,000. Effective August 1, 1996.

See Corporate Income Tax

Provides an income and franchise tax credit equal to 4.5% of the first \$100,000 of depreciable property purchased and placed in service in the state. The credit is taken in five equal installments, and sunsets in five years. Effective August 1, 1996.

See Corporate Income Tax

Allows individuals who do not itemize a tax credit equal to 2.75% of their charitable contributions in excess of 2% of their adjusted gross income. Effective January 1, 1997.

-- -4.9 -5.0 -5.1

Exempts up to \$35,000 in severance pay received as a result of the permanent closure of a manufacturing or processing plant. Effective January 1, 1996.

Insignificant

**1996 LEGISLATIVE SESSION
SECOND EXTRA SESSION**

Change in the Law

**Estimated Fiscal Effect
1996-97 1997-98 1998-99 1999-00**

INHERITANCE

Increases the Class A inheritance tax credit from \$26,150 (equivalent of a \$500,000 exemption) to \$33,150 (equivalent of a \$600,000 exemption). Effective January 1, 1997.	--	-\$3.5	-\$3.8	-\$4.1
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Conforms to federal provisions in the treatment of qualified terminable interest trusts. Effective January 1, 1997.	Insignificant
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Conforms to federal provision by allowing installment payment of inheritance taxes on closely held businesses and farms. Effective January 1, 1997.	Insignificant
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SALES AND USE TAX

Reduces the state sales tax on food consumed at home from 4% to 3%. Food is defined as those items included in food stamp purchases. Effective January 1, 1997.	-36.7	-87.0	-89.6	-92.2
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Clarifies the law which excludes cellular phones and other items sold in bundled transactions. Effective November 1, 1996.	-\$6.7	-\$6.7	-\$6.7	-\$6.7
--	--------	--------	--------	--------

Reduces the tax on the sale of electricity and piped natural gas to farmers, manufacturers, and commercial laundries and dry cleaners from 3% to 2.83%. Effective August 1, 1996.	-4.1	-5.0	-5.1	-5.2
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SOFT DRINK TAX

Phases-out the tax over three years as follows: 1/2 cents, effective July 1 1997; 2) 1/4 cents, effective July 1, 1998; and 0 cents, effective July 1, 1998. Effective July 1, 1997.	--	-\$9.9	-\$20.4	-\$31.8
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**1996 LEGISLATIVE SESSION
SECOND EXTRA SESSION**

Change in the Law

Estimated Fiscal Effect
1996-97 1997-98 1998-99 1999-00

LOCAL GOVERNMENT

SALES AND USE TAX

Clarifies the law which excludes cellular phones and other items sold in bundled transactions. Effective November 1, 1996.

-\$3.3 -\$3.3 -\$3.3 -\$3.3

1997 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1997-98	1998-99	1999-00	2000-01
GENERAL FUND				
CORPORATE INCOME TAX				
Increases from \$25,000 to \$250,000 the income tax credit for donations of real property made to a North Carolina jurisdiction organized to receive land for conservation purposes. Effective January 1, 1998.	-1.6	-1.6	-1.6	-1.6
Extends the targeted and general investment tax credits to leased machinery and equipment that is depreciated for federal tax purposes. Effective October 1, 1997.	-0.3	-1.2	-2.3	-3.6
Changes formula for determining the economic well being of counties used to qualify for various tax credits from per capita income, unemployment rate, and population growth to the three year average unemployment rate and per capita income, and population growth. Effective July 10, 1997.	Insignificant			
Adds to the list of industries eligible for various tax credits a central administrative office employing at least 40 new people, and air courier services. Effective October 1, 1997.	--	--	-1.0	-1.9
Allows an investment tax credit up to \$500,000 for expenses incurred in the construction or leasing of a central administrative office. Effective October 1, 1997.	Insignificant			
In determining eligibility for various tax credits, modifies the wage test to account for situations in which a county's relative wage level does not track its per capita income. Effective January 1, 1997.	Insignificant			
Increases the tax credit for historic rehabilitation from 5% to 20% of the cost of construction for income producing historic property. Creates a new 30% tax credit for non income producing historic structures. Effective January 1, 1998.	-0.1	-2.7	-3.2	-3.5

1997 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1997-98	1998-99	1999-00	2000-01
INDIVIDUAL INCOME TAX				
Conforms North Carolina's income tax law to the Internal Revenue Code with respect to the treatment of restored income of \$3,000 or more that a taxpayer receives in one year and then returns in another year. Effective January 1, 1995.	-0.1	-0.1	-0.1	-0.1
Requires persons or entities that pay nonresidents more than \$600 for personal services to withhold 4% of payment for tax purposes. Registered corporations, or corporations maintaining a permanent office in the state and not subject to this requirement. Effective January 1, 1998.	8.5	10.0	10.0	10.0
Updates North Carolina tax statutes to the Internal Revenue Code. Effective December 31, 1996.	-8.5	-16.8	-11.5	-13.0
Increases from \$25,000 to \$100,000 the income tax credit for donations of real property made to a North Carolina jurisdiction organized to receive land for conservation purposes. Effective January 1, 1997.	-1.6	-1.6	-1.6	-1.6
Allows tax credits that cannot be used during the 1996-98 period to be carried forward to the 1999 and 2000 tax years. Effective January 1, 1996.	--	--	-2.0	-4.1
Increases the tax credit for historic rehabilitation from 5% to 20% of the cost of construction for income producing historic property. Creates a new 30% tax credit for non income producing historic structures. Effective January 1, 1998.	See Corporate Income Tax			
Increase the maximum cumulative credit a taxpayer may claim from \$1 million to \$2 million. Extends expiration date from February 28, 1988 to February 28, 2001. Effective February 28, 2001.	See Corporate Income Tax			

1997 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1997-98	1998-99	1999-00	2000-01
INDIVIDUAL INCOME TAX: Continued				
Extends the exemption on severance the first \$35,000 of severance pay to all industries. Exemption applies to the loss of employment that is not the fault of the employee, and can only be taken one-time. Effective January 1, 1998.	--	-2.1	-2.2	-2.3
INTANGIBLES TAX				
Refunds to filers who protested correctly intangible tax payments for the years 1990 – 1994. Effective July 23, 1997.	-156.0	--	--	--
SALES AND USE TAX				
Clarifies the definition of custom software as software written according to the specifications of a specific customer. Effective October 1, 1997.	-0.7	-0.7	-0.8	-0.9
Extends the time non profit organizations and government entities have to file for a sales and use tax refund from six months to three years. Effective July 1, 1998.	--	-0.2	-0.2	-0.2
Allows individuals to file annual use tax returns on out-of-state purchases for a non business purpose. Previous law required monthly remittance if use tax was over \$50, and quarterly remittance if under \$50. Effective May 26, 1997.	Insignificant			
Exempts master tapes used by the audio and visual industries used in making first generation images for production. Effective October 1, 1997.	-1.0	-1.6	-1.6	-1.7
Reduces state sales tax on food consumed at home from 3% to 2%. Effective July 1, 1998.	--	-83.8	-88.2	-92.5

1997 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1997-98	1998-99	1999-00	2000-10

HIGHWAY FUND AND HIGHWAY TRUST FUND

DRIVERS' LICENSE FEES

Establishes a graduated license program for minors. Effective December 1, 1997.

0.2 0.4 1.3 1.3

Changes the license renewal cycle for commercial driving schools and instructors from one year to two years, and adjusts fees accordingly. Effective July 1, 1997.

None

PERSONALIZED LICENSE PLATES

Creates the following special license plates: 1) 82nd Airborne Division; 2) Vietnam Veterans; 3) Sheriff's Registration; 4) Soil and Water conservation; 5) March of Dimes/School Tech; 6) Magistrates' special Plates; and 7) Smoky Mountains. Effective at various times.

Insignificant

TRUCK PLATE FEES

Requires Department of Motor Vehicles to issue permanent truck and tractor plates, rather than annual plates. Effective January 1, 1999. Exempts certain vehicles carrying forest products to the first market from light traffic road restrictions. Increases the civil penalty for failure to comply with registration or insurance verification requirements from \$75 to \$1,000. Effective October 1, 1997.

0.1 0.1 0.1 0.1

1997 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1997-98	1998-99	1999-00	2000-10
LOCAL GOVERNMENT				
INTANGIBLES TAX				
Exempts intangible property such as patents, trademarks, and franchises from the property tax, when such property is listed separately. Does not prevent intrinsic intangible variables from being considered when determining the value of property. Effective July 1, 1997.		Insignificant		
PROPERTY TAXES				
Establishes a maximum assessed value of \$5,000 that can be placed on antique aircraft. Effective July 1, 1998.	-0.1	-0.1	-0.1	-0.1
SALES AND USE TAX				
Clarifies the definition of custom software as software written according to the specifications of a specific customer. Effective October 1, 1997.	-0.3	-0.4	-0.4	-0.4
Extends the time non profit organizations and government entities have to file for a sales and use tax refund from six months to three years. Effective July 1,1998.	--	-0.1	-0.1	-0.1
Exempts master tapes used by the audio and visual industries used in making first generation images for production. Effective October 1, 1997.	-0.5	-0.8	-0.8	-0.9
TRANSIT REVENUE OPTIONS				
Authorizes the levying of a ½% sales tax in Mecklenburg only. Effective upon ratification.	21.8	46.2	48.9	52.8
Permits the levying of a \$5 vehicle license tax in municipalities. Effective upon ratification.	2.8	5.9	6.1	6.2
Permits regional transit authorities to levy a \$5 vehicle registration tax. Effective upon ratification.	3.1	6.3	6.5	6.6

1997 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1997-98	1998-99	1999-00	2000-10
TRANSIT REVENUE OPTIONS: CONTINUED				
Authorizes regional transit authorities to levy a 5% vehicle rental tax on short-term leases. Effective upon ratification.	4.6	9.2	9.4	9.6
OTHER TAXES				
ILLICIT LIQUOR TAX				
Adds spirituous liquor, mash, and illegally mixed beverages to the list of controlled substances subject to excise taxes. Effective October 1, 1997.	(*)	(*)	(*)	(*)
(*) It is estimated that the general fund will receive \$125,000 per year, while local governments receive \$375,000.				
REGULATORY FEES				
Increases the insurance regulatory fee from 7.25% of the gross premiums tax to 8.75%, effective for 1997. Effective July 1, 1997.	3.0	--	--	--
Reduces the public utility regulatory fee from 0.1% to 0.09% of the utility's jurisdictional revenue. Effective July 1, 1997.	-0.8	--	--	--

1998 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1998-99	1999-00	2000-01	2001-02

GENERAL FUND

CORPORATE INCOME TAX

Corporations may deduct dividends received from corporations in which it owns more than 50% of the outstanding voting stock. Previously included only North Carolina domiciled corporations. Effective October 29, 1998.	Insignificant			
Expands the industries that qualify for the qualified business tax credit to include those that are engaged in motion picture film production. Maximum total credits allowed remain at \$6 million per year. Effective January 1, 1999.	None			
Extends the sunset provision for the qualified business tax credit from January 1, 1999 to January 1, 2003. Effective January 1, 1999.	--	--	-6.0	-6.0
Expands investment tax credit to include investment in machinery and equipment at major recycling facilities. Effective January 1, 1998.	-0.5	-.05	-0.6	-0.6
Expands investment tax credits to include certain operating leases. Effective January 1, 1999.	--	--	-1.8	-2.5
Provides additional tax incentives for establishment located in state development zones. Effective January 1, 1999.	--	--	-0.4	-1.3
Provides a refundable tax credit to major recycling facilities equal to additional transportation expenses incurred as a result of their inability to use ocean barges or ships. Tax ceilings apply. Effective January 1, 1998.	-0.2	-0.6	-3.9	-8.1
Expands the tax credit for poultry composting facilities to include corporate entities. Effective January 1, 1998.	Insignificant			

1998 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1998-99	1999-00	2000-01	2001-02
CORPORATE INCOME TAX: Continued				
Extends the loss carryforward from 5 years to 15 years, and applies to losses beginning January 1, 1993. Estimated fiscal effect for 2002-03 is - \$16.0. Effective July 1, 1999.	--	-3.7	-3.7	-3.7
Updates reference to the federal Internal Revenue Code from January 1, 1997 to September 1, 1998.	-3.0	-3.0	-3.0	-3.0
INDIVIDUAL INCOME TAX				
Allows a 15% tax credit of the premium cost on a qualified long-term care policy, not to exceed \$350. Effective January 1, 1999.	--	-8.0	-8.9	-9.8
Allows nonresidents to claim a prorated credit for construction of a dwelling that is compatible for handicapped persons. Previously, the credit only applied to residents. Effective January 1, 1998.	-0.1	-0.1	-0.1	-0.1
Eliminates the sunset provision for tax credits for poultry composting facilities. Effective September 11, 1998.	Insignificant			
Increases the withholding threshold for nonresident contractors, athletes, and entertainers from \$600 to \$1,500. Effective January 1, 1998.	-7.0	-7.0	-7.0	-7.0
Updates reference to the federal Internal Revenue Code from January 1, 1997 to September 1, 1998.	-3.0	-1.0	-7.1	-15.5
Increases credit for charitable contributions by nonitemizers from 2.75% to 7%, for contributions the exceed 2% of adjusted gross income. Effective January 1, 1999.	--	-7.6	-7.7	-7.8
INHERITANCE TAXES				
Repeals state inheritance tax. The state estate tax equal to the allowable federal credit for state death taxes remains. Effective January 1, 1999.	--	-52.5	-79.4	-85.7

1998 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1998-99	1999-00	2000-01	2001-02
PRIVILEGE LICENSE TAXES				
Simplifies and makes the tax code more uniform. Effective July 1, 1999.	1.5	2.2	2.3	2.4
Exempts from the amusement tax certain nonprofit art organizations and community festivals. Effective August 5, 1998.		Insignificant		
SALES AND USE TAX				
Eliminates the state sales tax on food consumed at home, as defined by those items covered under the federal food stamp program. The 2% local tax remains. Effective May 1, 1999.	-18.4	-184.5	-190.0	-195.7
Allows a local school administrative unit a sales and use tax refund on direct purchases of tangible personal property. Effective July 1, 1998.	--	-14.8	-15.0	-14.4
Exempts piped natural gas sold by an entity not subject to the franchise tax. This applies to a gas marketer or a gas city. Effective July 1, 1998.	-1.3	-3.6	-3.7	-3.8
Restructures the taxation of piped natural gas. Eliminates the sales tax on piped natural gas and imposes an excise tax based on consumption, effective July 1, 1999. Exempts cities with their own piped gas systems from the tax. Effective July 1, 1998.	-7.9	-10.4	-10.6	-10.8
Lowers sales and use tax on equipment purchased by interstate air couriers for handling and storing materials from 4% to 1% with a \$80 tax ceiling. Effective January 1, 2001.	--	--	--	-0.4
Exempts lubricants, repair parts, and accessories for aircraft assigned to an air courier hub. Effective January 1, 2001.	--	--	--	--

1998 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1998-99	1999-00	2000-01	2001-02
SALES AND USE TAX: Continued				
Decreases sales and use taxes for cranes, foundations, transportation equipment, and material handling equipment at a major recycling facility from 4% to 1% with an \$80 tax ceiling. Exempts lubricants, and other additives for vehicles and machinery used at the plant. Exempts other material and supplies used in the manufacturing process. Effective January 1, 1998.	-0.3	-0.1	-0.2	-0.2
Exempts from the 2.83% tax electricity used at a major recycling facility. Effective September 1, 1998.	--	--	Insign	-0.1
Allows an annual refund for building materials, supplies, and equipment that become part of a major recycling facility. Effective September 1, 1998.	-0.1	--	--	--
Repeals the annual \$25 wholesale license tax. Effective July 1, 1999.	-1.3	-1.3	-1.3	-1.3
Increases the quarterly filing threshold from \$50 to \$100. Effective July 1, 1999.	--	-2.0	--	--
Exempts gross receipts from local calls of coin operated public telephones. Effective January 1, 2000.	--	-0.8	-1.9	-2.0

1998 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1998-99	1999-00	2000-01	2001-02

LOCAL GOVERNMENT

PROPERTY TAXES

Expands facilities that qualify for property tax exemption under qualified retirement facilities to include nonprofit continuing care retirement homes. Effective July 1, 1998.				Insignificant
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Exempts aircraft owned by an interstate air courier, and apportioned for property tax purposes to the air courier's hub in the state. Effective January 1, 2001.	--	--	--	-0.4
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SALES AND USE TAX

Allows a local school administrative unit a sales and use tax refund on direct purchases of tangible personal property. Effective July 1, 1998.	--	-7.4	-7.5	-7.2
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Exempts piped natural gas sold by an entity not subject to the franchise tax. This applies to a gas marketer or a gas city. Effective July 1, 1998.	-0.2	-2.7	-2.7	-2.7
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Restructures the taxation of piped natural gas. Eliminates the sales tax on piped natural gas and imposes an excise tax based on consumption, effective July 1, 1999. Exempts cities with their own piped gas systems from the tax. Effective July 1, 1998.	-7.9	-10.4	-10.6	-10.8
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Lowers sales and use tax on equipment purchased by interstate air couriers for handling and storing materials from 4% to 1% with a \$80 tax ceiling. Effective January 1, 2001.	--	--	--	-0.2
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Exempts lubricants, repair parts, and accessories for aircraft assigned to an air courier hub. Effective January 1, 2001.	--	--	--	--
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1998 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1998-99	1999-00	2000-01	2001-02
SALES AND USE TAX: Continued				
Decreases sales and use taxes for cranes, foundations, transportation equipment, and material handling equipment at a major recycling facility from 4% to 1% with an \$80 tax ceiling. Exempts lubricants, and other additives for vehicles and machinery used at the plant. Exempts other material and supplies used in the manufacturing process. Effective January 1, 1998.	-0.1	-0.1	-0.1	-0.1
Allows an annual refund for building materials, supplies, and equipment that become part of a major recycling facility. Effective September 1, 1998.	-0.1	--	--	--
OTHER TAXES				
INSURANCE REGULATORY FEE				
Decreases the regulatory fee from 8.75% to 6% of the gross premium tax. Revenue is used for regulatory purposes and is not General Fund money. (Non General Fund Revenue.) Effective January 1, 1998.	-13.3	--	--	--
PUBLIC UTILITY REGULATORY FEE				
Maintains the current regulatory fee at 0.09% of the gross receipts tax. Revenue used for regulatory purposes and is not General Fund money. (Non General Fund Revenue.) Effective July 1, 1998.	None	--	--	--

1999 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1999-00	2000-01	2001-02	2002-03
GENERAL FUND				
CORPORATE INCOME TAX				
Allows a corporate income tax credit for manufacturers who export cigarettes to foreign nations. The credit depends on the percent of cigarettes exported. Effective January 1, 1999, and repealed January 1, 2005.	-8.7	-9.0	-9.2	-9.5
Repeals a number of energy related income tax credits, and creates a new tax credit. The new credit is equal to 35% of the cost of renewable energy property, with a maximum credit of \$250,000 for nonresidential and \$10,500 for residential. The nonresidential credit must be taken over five years in equal installments, while the residential credit is taken in one year. Effective January 1, 2000.	Unknown			
Expands recycling newsprint tax to include magazines in addition to newspapers. Increases the recycling goal of publishers. Effective January 1, 2000.	Insignificant			
Updates North Carolina's reference to the Internal Revenue Code from September 1, 1998 to June 1, 1999. The most important changes concern RIC's and REIT's. Effective December 1, 1999.	12.7	5.6	3.6	3.3
Provides a 7% credit for making investment in machinery and equipment used in production based on technology licensed from a research institution. Investments must be located in tier one, two, or three counties, be at least \$10 million during the tax year, and at least \$100 million over a five year period. Investments between \$100 and \$150 million qualify for a 15% credit, and investments over \$150 million a 20% credit. Effective January 1, 2000.	--	-2.1	-2.1	-2.1

1999 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1999-00	2000-01	2001-02	2002-03
CORPORATE INCOME TAX: CONTINUED				
Bill Lee Act				
Extends sunset from January 1, 2002 to January 1, 2006. Effective January 1, 2002.	--	--	--	-13.1
Allows tax credit for construction or rehabilitation of low income housing, with a six year sunset. Effective January 1, 2000.	--	--	-1.5	-5.3
Closes loopholes in definition of economic development zones. Effective January 1, 2000.	0.1	0.1	0.6	0.3
Establishes an investment tax credit of 25% of the contribution or investment to a nonprofit organization in a development zone with a \$4 million limit. Effective January 1, 2000.	--	--	-2.5	-4.0
Extends provisions to customer call centers and certain electronic mail centers. Effective January 1, 2000.	--	-3.3	-6.6	-8.2
The following changes to the Bill Lee Act have very little fiscal impact: 1) extend credits to insurance company administrative offices; 2) subject companies applying for credits under to provide health insurance, and comply with environmental and OSHA standards; 3) clarify certain definitions; 4) modify expiration date for research and development tax credit; and 5) makes other changes. Effective date varies with provision.	Insignificant			

1999 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1999-00	2000-01	2001-02	2002-03
FRANCHISE TAX Continues the regulatory fee for public utilities at 0.09% of the their gross premiums. Effective July 1, 1999.	None			
INDIVIDUAL INCOME TAX Repeals a number of energy related income tax credits, and creates a new tax credit. The new credit is equal to 35% of the cost of renewable energy property, with a maximum credit of \$250,000 for nonresidential and \$10,500 for residential. The nonresidential credit must be taken over five years in equal installments, while the residential credit is taken in one year. Effective January 1, 2000.	Unknown			
Updates North Carolina's reference to the Internal Revenue Code from September 1, 1998 to June 1, 1999. Effective December 1, 1999.	-0.9	-2.5	-2.2	-2.4
Modifies the historic rehabilitation tax credit to allow certain pass-through entities to allocate the credit among project owners. Effective January 1, 1999.	-0.2	-0.3	-0.3	-0.3
Provides that a pension payer that is required to withhold federal income taxes on a pension payment withhold state income taxes. This provision does not apply to government employees who are exempt from state income taxes on their pensions. Effective January 1, 2001.	Insignificant			

1999 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1999-00	2000-01	2001-02	2002-03
INSURANCE TAX – REGULATORY FEES				
Increases the insurance regulatory fee from 6.5% to 7% of their gross premiums tax. The regulatory tax applies to Article 65 Corporations (HMOs) beginning January 1, 2000. Effective July 1, 1999.	2.4	--	--	--
PRIVILEGE LICENSE TAX				
Reduces the tax on loan agencies and brokers from \$750 to \$250 per location. Effective July 1, 1999.	-0.6	-0.6	-0.6	-0.6
Imposes a \$250 license fee on each location of a pawnbroker or check cashing business. Effective July 1, 1999.	0.4	0.4	0.4	0.4
SALES AND USE TAX				
Allows a county to acquire an interest in real or personal property used by a community college, and to construct, equip, repair, or otherwise make available for use by the community college. Once the activity is completed the county must transfer the property back to the community college. Since the county, but not the community college, qualifies for a refund there is a revenue loss. Effective May 16, 1999.	-4.4	-4.6	-4.9	-5.1
Requires individuals who file an income tax return to report their out-of-state purchases and remit a 6% (4% state, 2% local) use tax instead of filing an annual use tax return. Provides for an estimated method of determining liability if actual purchases are not known. Effective January 1, 1999.	3.3	3.5	3.7	3.9
Exempts remaining items from taxation. Effective October 1, 1999.	-1.2	-1.9	-2.2	-2.6
Repeals sales tax registration fee on new businesses. Effective January 1, 2000.	-0.3	-0.5	-0.5	-0.5

1999 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1999-00	2000-01	2001-02	2002-03
SALES AND USE TAX: CONTINUED				
Exempts durable medical equipment and sundries that are eligible for coverage under medicare and medicade. Effective October 1, 1999.	-0.5	-0.6	-0.7	-0.7
Removes exemption on trade-in items. Most items in this category are taxed at 1% with an \$80 ceiling. Effective October 1, 1999.	0.9	1.3	1.3	1.3
Removes exemption for free shoppers' guides. Effective October 1, 1999.	1.9	2.5	2.5	2.5
Provides sales tax refund for machinery and equipment purchased by Bill Lee Act companies. Effective January 1, 2000.	--	-0.1	-0.2	-0.3
Provides a sales tax refund for nonprofit insurance companies for building materials, fixtures, and equipment with an eight-year sunset, and for capital computer equipment with a four year sunset. Effective May 1, 1999.	--	-0.6	-1.2	-1.2
Provides a 1% sales tax with \$80 ceiling for training equipment for air cargo carriers, and a sales tax exemption on repair parts, lubricants, etc. Effective May 1, 1999.	-1.6	-1.6	-1.6	-1.6

1999 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1999-00	2000-01	2001-02	2002-03
HIGHWAY FUND/HIGHWAY TRUST FUND				
LICENSES AND FEES				
Authorizes the issuance of permanent registration plates to trailers owned by charitable organizations and used only in parades. Effective July 1, 1999.				Insignificant
MOTOR FUELS TAX				
Permits a refund of the excise tax on motor fuels used to operate special mobile equipment off-highway. Effective January 1, 1999.				Insignificant
LOCAL GOVERNMENT				
ALCOHOLIC BEVERAGE TAX				
Expands the list of establishments that may have an ABC license in dry counties to include historic establishment, historic districts, recreational districts, interstate interchange zones, residential private clubs, and sports clubs. Effective July 19, 1999.				Insignificant
EXCISE TAX ON CONVEYANCES				
Eliminates the use of stamps to indicate whether the excise tax on conveyances was paid. Effective July 1, 2000.				Insignificant
PROPERTY TAX				
Provides that for property tax purposes motor vehicles are valued as of the January proceeding the due date of the tax, instead of the January in the year in which the registration is due. Effective July 1, 2000.	--	-27.6	-29.5	-31.6

1999 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1999-00	2000-01	2001-02	2002-03
ROOM OCCUPANCY TAX				
Authorizes the Town of Mooresville to levy a 2% occupancy tax with the proceeds earmarked for tourism. The total county-wide tax for Iredell County cannot exceed 6%. Effective July 8, 1999.	n.a.	n.a.	n.a.	n.a.
SALES AND USE TAX				
Allows a county to acquire an interest in real or personal property used by a community college, and to construct, equip, repair, or otherwise make available for use by the community college. Once the activity is completed the county must transfer the property back to the community college. Since the county, but not the community college, qualifies for a refund there is a revenue loss. Effective May 16, 1999.	-1.5	-1.5	-1.6	-1.7
Requires individuals who file an income tax return to report their out-of-state purchases and remit a 6% (4% state, 2% local) use tax instead of filing an annual use tax return. Provides for an estimated method of determining liability if actual purchases are not known. Effective January 1, 1999.	1.1	1.2	1.2	1.3
Provides a sales tax refund for nonprofit insurance companies for building materials, fixtures, and equipment with an eight year sunset, and for capital computer equipment with a four year sunset. Effective May 1, 1999.	--	-0.3	-0.6	-0.6

1999 LEGISLATIVE SESSION

Change in the Law	Estimated Fiscal Effect			
	1999-00	2000-01	2001-02	2002-03
OTHER TAXES: INTANGIBLE TAX				
Appropriates \$200 million from the Savings Reserve Account to the Department of the Treasurer on October 1, 1999, as a partial payment to cover intangible tax refunds and interest. It is the intent of the General Assembly to restore these funds in 2000-01. Appropriates \$240 million on July 10, 2000, to cover the remaining obligation. Effective July 20, 1999.	-200.0	-240.0	--	--

Comparison of North Carolina's Tax System to That of Other States

Table 1. North Carolina relies more heavily on state government rather than local government taxation than is typical in the nation. In term of state and local government taxation for 1995-96, state government collections averaged 61% for the nation, 64% for the twelve Southeastern states, 59% for the eleven most populated stated, while averaging 72% in North Carolina. North Carolina is the 11th most populated state, and ranked 12th in total state and local tax collections, 11th in state tax collections, and 24th in local tax collections.

TABLE 1

**LEVEL AND PERCENTAGE DISTRIBUTION OF STATE
AND LOCAL TAX COLLECTIONS, BY SOURCE, FOR 1995-96
(\$MILLIONS)**

STATES	TOTAL COLLECTIONS			PERCENT DISTRIBUTION	
	TOTAL	STATE GOVERNMENT	LOCAL GOVERNMENT	STATE GOVERNMENT	LOCAL GOVERNMENT
ALABAMA	7,631,749	5,257,771	237397800%	69%	31%
ALASKA	2,301,362	1,519,082	78228000%	66%	34%
ARIZONA	10,162,502	6,409,395	375310700%	63%	37%
ARKANSAS	4,850,399	3,702,141	114825800%	76%	24%
CALIFORNIA	86,214,692	57,746,664	28,468,028	67%	33%
COLORADO	9,243,621	4,820,760	442286100%	52%	48%
CONNECTICUT	12,542,969	7,830,171	471279800%	62%	38%
DELAWARE	2,046,282	1,683,861	36242100%	82%	18%
FLORIDA	33,556,992	19,728,262	1382873000%	59%	41%
GEORGIA	17,308,761	10,292,371	7,016,390	59%	41%
HAWAII	3,841,518	3,079,404	76211400%	80%	20%
IDAHO	2,544,263	1,857,006	68725700%	73%	27%
ILLINOIS	32,613,293	17,508,290	1510500300%	54%	46%
INDIANA	12,979,690	8,437,031	454265900%	65%	35%
IOWA	6,982,600	4,440,540	2,542,060	64%	36%
KANSAS	6,372,805	3,978,761	239404400%	62%	38%
KENTUCKY	8,413,338	6,489,256	192408200%	77%	23%
LOUISIANA	8,465,583	4,906,283	355930000%	58%	42%
MAINE	3,231,393	1,896,564	133482900%	59%	41%
MARYLAND	14,131,690	8,166,692	5,964,998	58%	42%
MASSACHUSETTS	19,122,967	12,455,370	666759700%	65%	35%
MICHIGAN	24,827,513	18,699,069	612844400%	75%	25%
MINNESOTA	14,569,258	10,242,646	432661200%	70%	30%
MISSISSIPPI	5,143,050	3,860,523	128252700%	75%	25%
MISSOURI	11,687,365	7,210,351	4,477,014	62%	38%

Table 1: Continued

TABLE 1

**LEVEL AND PERCENTAGE DISTRIBUTION OF STATE
AND LOCAL TAX COLLECTIONS, BY SOURCE, FOR 1995-96
(\$MILLIONS)**

STATES	TOTAL COLLECTIONS			PERCENT DISTRIBUTION	
	TOTAL	STATE GOVERNMENT	LOCAL GOVERNMENT	STATE GOVERNMENT	LOCAL GOVERNMENT
MONTANA	1,782,111	1,211,162	570,949	68%	32%
NEBRASKA	4,181,433	2,369,462	1,811,971	57%	43%
NEVADA	4,266,098	2,895,346	1,370,752	68%	32%
NEW HAMPSHIRE	2,618,777	837,092	1,781,685	32%	68%
NEW JERSEY	27,449,361	14,384,897	13,064,464	52%	48%
NEW MEXICO	3,876,174	3,060,637	815,537	79%	21%
NEW YORK	72,495,173	34,150,039	38,345,134	47%	53%
NORTH CAROLINA	16,486,228	11,882,318	4,603,910	72%	28%
NORTH DAKOTA	1,441,143	985,327	455,816	68%	32%
OHIO	27,961,467	15,649,492	12,311,975	56%	44%
OKLAHOMA	6,558,470	4,617,688	1,940,782	70%	30%
OREGON	7,238,030	4,351,035	2,886,995	60%	40%
PENNSYLVANIA	30,243,954	18,259,012	11,984,942	60%	40%
RHODE ISLAND	2,710,669	1,553,930	1,156,739	57%	43%
SOUTH CAROLINA	7,328,128	5,113,034	2,215,094	70%	30%
SOUTH DAKOTA	1,438,255	730,251	708,004	51%	49%
TENNESSEE	9,992,422	6,179,787	3,812,635	62%	38%
TEXAS	40,704,512	21,611,887	19,092,625	53%	47%
UTAH	4,293,575	2,905,128	1,388,447	68%	32%
VERMONT	1,517,686	841,029	676,657	55%	45%
VIRGINIA	15,626,150	8,900,413	6,725,737	57%	43%
WASHINGTON	15,466,559	10,586,463	4,880,096	68%	32%
WEST VIRGINIA	3,642,757	2,764,522	878,235	76%	24%
WISCONSIN	15,205,413	9,585,513	5,619,900	63%	37%
WYOMING	1,164,841	710,512	454,329	61%	39%
UNITED STATES	689,038,310	420,477,109	270,601,514	61%	39%

Source: *Governmental Finances: 1995-96*, Bureau of the Census, U.S. Department of Commerce, Washington, D.C., 1999.

Table 2. North Carolina has a lower state and local tax burden than the average state in the nation. The state has a very low local tax burden, while the state tax burden is above average. In 1995-96, North Carolina ranked 33rd in the nation in state and local per capita tax burden, 17th in per capita state tax burden, and 40th in per capita local tax burden. As a percent of personal income, North Carolina ranked 33th in state and local tax burden, 17th in state tax burden, and 42nd in local tax burden.

TABLE 2

**STATE RANKING OF STATE AND LOCAL TAX BURDEN,
PER CAPITA AND PERCENT OF PERSONAL INCOME, FOR 1995-96**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
ALABAMA	50	45	44	48	37	43
ALASKA	3	3	6	1	3	7
ARIZONA	29	30	30	15	25	20
ARKANSAS	47	28	50	34	13	49
CALIFORNIA	14	13	26	24	20	34
COLORADO	25	44	9	41	48	12
CONNECTICUT	2	4	5	12	23	17
DELAWARE	9	5	45	32	6	50
FLORIDA	28	40	20	42	43	26
GEORGIA	26	36	21	29	36	19
HAWAII	5	2	38	6	1	1
IDAHO	39	20	43	18	10	41
ILLINOIS	12	1	4	30	2	5
INDIANA	35	31	33	40	32	36
IOWA	23	21	27	16	24	22
KANSAS	22	22	23	23	29	23
KENTUCKY	37	16	46	19	7	48
LOUISIANA	46	48	32	43	44	21
MAINE	16	24	15	7	19	8
MARYLAND	11	18	7	37	42	18
MASSACHUSETTS	6	7	13	26	27	28
MICHIGAN	17	8	39	31	15	46
MINNESOTA	7	6	24	5	5	29
MISSISSIPPI	48	34	49	22	8	44
MISSOURI	36	42	31	46	41	31

Table 2: Continued

TABLE 2

**STATE RANKING OF STATE AND LOCAL TAX BURDEN,
PER CAPITA AND PERCENT OF PERSONAL INCOME, FOR 1995-96**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
MONTANA	41	39	37	28	22	37
NEBRASKA	19	32	12	14	34	9
NEVADA	15	14	29	21	18	35
NEW HAMPSHIRE	32	50	3	50	50	4
NEW JERSEY	4	12	2	3	30	3
NEW MEXICO	30	15	48	8	4	47
NEW YORK	1	10	1	2	31	2
NORTH CAROLINA	33	17	40	33	17	42
NORTH DAKOTA	34	23	35	11	12	32
OHIO	21	35	11	27	40	13
OKLAHOMA	43	37	42	35	21	39
OREGON	31	41	25	36	39	24
PENNSYLVANIA	20	25	18	38	38	27
RHODE ISLAND	13	19	8	20	35	14
SOUTH CAROLINA	44	49	41	39	26	40
SOUTH DAKOTA	45	38	19	45	49	10
TENNESSEE	49	46	34	49	46	38
TEXAS	40	47	17	44	47	15
UTAH	38	29	36	10	16	30
VERMONT	18	33	10	9	33	6
VIRGINIA	27	43	16	47	45	25
WASHINGTON	10	9	28	13	14	33
WEST VIRGINIA	42	26	47	25	9	45
WISCONSIN	8	11	14	4	11	11
WYOMING	24	27	22	17	28	16

Source: Statistics presented in this table are based on data found in *Governmental Finances: 1995-96*, Bureau of Census, U.S. Department of Commerce, Washington, D.C., 1999.

Table 3. States tax decreases were larger than tax increases during each legislative session from 1995 through 1998. During that four year period, net tax decreases totaled \$14.9 billion, or 1% of total collections. As computed by the National Council of State Legislatures, North Carolina enacted \$862.3 million in net tax decreases, representing 2% of its tax collections. Only ten states decreased taxes by a larger percent.

TABLE 3

**ESTIMATED IMPACT OF RECENT TAX CHANGES IN THE
UNITED STATES ENACTED IN 1994-95, 1995-96, 1996-97, AND 1997-98
(\$MILLIONS, %CHANGE)**

STATES	1998 LEGISLATION		1997 LEGISLATION		1996 LEGISLATION		1995 LEGISLATION	
	NET CHANGE FY1999	PERCENT OF 1997 TAXES	NET CHANGE FY1998	PERCENT OF 1996 TAXES	NET CHANGE FY1997	PERCENT OF 1995 TAXES	NET CHANGE FY1996	PERCENT OF 1994 TAXES
ALABAMA	4.5	0.1	0	0	-2.4	-0.1	0	0
ALASKA	-5.1	-0.3	24.1	1.6	0	0	0	0
ARIZONA	-125.4	-1.8	-109.9	-1.7	-175.3	-3.1	-168.6	-3.1
ARKANSAS	0	0	31.5	0.8	0	0	-25	-0.8
CALIFORNIA	-1331.4	-2.2	-170	-0.3	-94	-0.2	-255	-0.5
COLORADO	-564.2	-10.7	-142.1	-2.9	-17.7	-0.4	0	0
CONNECTICUT	-94.1	-4.7	-127	-1.6	-268	-3.9	63.5	1.2
DELAWARE	-48.2	-2.8	-2	-0.1	-12.5	-0.9	-18.4	-1.4
FLORIDA	-133	-0.6	-48.6	-0.2	-32.6	-0.2	4	0
GEORGIA	-275.3	-2.5	-154.6	-1.5	-172	-2	0	0
HAWAII	-64	-2.1	0.2	0	0	0	65	2.3
IDAHO	-2.8	-0.1	0	0	27.6	1.7	0	0
ILLINOIS	-117	-0.6	115	0.7	-9.1	-0.1	-110	-0.8
INDIANA	-2.3	0	-50.9	-0.6	-264.4	-3.6	0	0
IOWA	-101.5	-2.2	-132.7	-3	-23.3	-0.6	-31.5	-0.7
KANSAS	-224.7	-5.3	-114.9	-2.9	-8.8	-0.2	-39.5	-1.2
KENTUCKY	-67.1	-1	-13.8	-0.2	-44.3	-0.8	-34	-0.6
LOUISIANA	-8.6	-0.2	-118	-2.4	-6.1	-0.1	0	0
MAINE	-94.1	-4.7	110.8	5.8	-11.4	-0.6	3.6	0.2
MARYLAND	-200.2	-2.3	-39.5	-0.5	-1.5	0	-4.5	-0.1
MASSACHUSETTS	-691.5	-5.2	-188.7	-1.5	-195	-1.8	-0.7	0
MICHIGAN	-46	-0.2	148.5	0.8	-13.9	-0.1	-245	-2
MINNESOTA	-488.7	-4.4	-475.6	-4.7	-8.8	-0.2	8.1	0.1
MISSISSIPPI	-15.1	-0.4	-2.4	-0.1	0	0	6	0.2
MISSOURI	-454	-5.8	-163.3	-2.2	65	1.1	0	0

Table 3: Continued

TABLE 3

**ESTIMATED IMPACT OF RECENT TAX CHANGES IN THE
UNITED STATES ENACTED IN 1994-95, 1995-96, 1996-97, AND 1997-98
(\$MILLIONS, %CHANGE)**

STATES	1998 LEGISLATION		1997 LEGISLATION		1996 LEGISLATION		1995 LEGISLATION	
	NET CHANGE FY1999	PERCENT OF 1997 TAXES	NET CHANGE FY1998	PERCENT OF 1996 TAXES	NET CHANGE FY1997	PERCENT OF 1995 TAXES	NET CHANGE FY1996	PERCENT OF 1994 TAXES
MONTANA	1.3	0.1	-53.4	-4.3	0	0	-31.3	-2.6
NEBRASKA	-109.6	-4.3	-88.3	-3.7	1.1	0.1	3.7	0.2
NEVADA	0	0	0	0	0	0	-15	-0.7
NEW HAMPSHIRE	0	0	20.1	2.4	0	0	-126.1	-15.4
NEW JERSEY	-76.3	-0.5	-1.5	0	-143	-1.1	-260	-2
NEW MEXICO	-20.6	-0.7	16	0.5	9.2	0.3	-25.1	-0.9
NEW YORK	-98	-0.3	-803.5	-2.4	-1,971.0	-6	-944	-0.8
NORTH CAROLINA	-96.8	-0.8	-309.9	-2.6	-88.8	-0.8	-363.3	-3.6
NORTH DAKOTA	0	0	-0.7	-0.1	4.3	0.5	0	0
OHIO	-708.6	-4.3	-22.5	-0.1	-425	-3	-67.9	-0.5
OKLAHOMA	-15.9	-0.3	0	0	-0.6	0	0	0
OREGON	0	0	67.3	1.5	0	0	-291.7	-7.5
PENNSYLVANIA	-204.4	-1.1	76	0.4	10.1	0.1	-281	-1.7
RHODE ISLAND	-45.4	-2.8	49.5	5.9	-4.4	-0.3	-28.3	-2
SOUTH CAROLINA	11.9	0.2	-3.7	-0.1	-10	-0.2	-14.6	-0.3
SOUTH DAKOTA	0	0	16.8	2.3	0	0	27	4.5
TENNESSEE	0	0	0	0	0	0	-9.4	-0.2
TEXAS	0	0	35.9	0.2	0	0	7.3	0
UTAH	0	0	45	1.5	-53.7	-2.2	-83.6	-3.5
VERMONT	-0.8	-0.1	49.5	5.9	1	0.1	21.1	2.6
VIRGINIA	-142.2	-1.5	3.5	0	0	0	-26.2	-0.3
WASHINGTON	-19.7	-0.2	-6.5	-0.1	-132.6	-1.4	-11.4	-0.1
WEST VIRGINIA	-5	-0.2	-8.6	-0.3	-6.5	-0.3	-3	-0.1
WISCONSIN	-123.5	-1.2	50.6	0.5	43.5	0.5	29.8	0.4
WYOMING	35.4	5.3	0	0	0	0	0	0
UNITED STATES	-7,142.0	-1.6	-2,573.1	-0.6	-4,030.2	-1.1	-1,210.6	-0.3

Source: State Tax Actions- 1998, 1997, 1996, and 1995, National Council of State Legislatures, Denver, Colorado, January 1999, February 1998, October 1996, and December, 1995, pp. 11, 14-15, 4-15, 12-13 respectively.

Table 4. North Carolina's per capita state and local tax burden was \$2,251, while it averaged \$2,597 for the nation, and \$2,152 in the Southeast. Of the twelve Southeastern states, North Carolina ranked fourth in per capita state and local tax burden. As a percent of personal income, North Carolina's state and local tax burden stood at 10.9%, while the burden was 11.3%, for the nation, and 10.4% in the Southeast. Of the twelve Southeastern states, North Carolina ranked fifth in state and local tax burden as a percent of personal income.

TABLE 4

**STATE AND LOCAL TAX COLLECTIONS, PER CAPITA AND
AS A PERCENT OF PERSONAL INCOME, BY SOURCE, FOR THE
STATES, SOUTHEAST, AND NORTH CAROLINA, FOR 1995-96**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
UNITED STATES	2,597	1,577	1,020	11.3	6.9	4.4
SOUTHEAST	2,152	1,385	767	10.4	6.7	3.7
ALABAMA	1,786	1,230	556	9.4	6.4	2.9
ARKANSAS	1,932	1,475	457	10.8	8.2	2.6
FLORIDA	2,330	1,370	961	10.3	6	4.2
GEORGIA	2,354	1,400	954	11.1	6.6	4.5
KENTUCKY	2,166	1,671	495	11.6	8.9	2.7
LOUISIANA	1,946	1,128	817	10.3	6	4.4
MISSISSIPPI	1,894	1,421	472	11.4	8.6	2.9
NORTH CAROLINA	2,251	1,623	630	10.9	7.8	3.1
SOUTH CAROLINA	1,981	1,382	600	10.5	7.3	3.2
TENNESSEE	1,878	1,162	717	9	5.6	3.4
VIRGINIA	2,341	1,333	1,007	9.8	5.6	4.2
WEST VIRGINIA	1,995	1,514	481	11.3	8.6	2.7

Source: Statistics presented in this table are based on data found in Governmental Finances: 1995-96, Bureau of Census, U.S. Department of Commerce, Washington, D.C., 1999.

Table 5. North Carolina taxpayers have a lower state and local tax burden than the average citizen in the eleven most populated states, and a tax lower burden than the average national taxpayer. In 1995-96, on a per capita basis, taxpayers in North Carolina paid \$2,251 in state and local taxes, while the per capita state and local tax burden in the eleven most populated states stood at \$2,718, and the national average was \$2,597. Of the eleven most populated states, North Carolina had the second lowest per capita tax burden. Further, while North Carolina taxpayers allocated 10.9% of their income to state and local tax payments, taxpayers in the eleven most populated states allocated 11.5%, and the average taxpayer in the nation allocated 11.3%. Of the eleven most populated states, five states had a higher tax burden, as measured as a percent of personal income, three the same (including North Carolina), three lower.

TABLE 5

**STATE AND LOCAL TAX COLLECTIONS, PER CAPITA AND AS A PERCENT
OF PERSONAL INCOME, BY SOURCE, FOR THE UNITED STATES
AND THE ELEVEN MOST POPULATED STATES, FOR 1995-96**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
UNITED STATES	2,597	1,577	1,020	11.3	6.9	4.4
ELEVEN LARGEST STATES	2,718	1,591	1,127	11.5	6.7	4.8
CALIFORNIA	2,705	1,811	893	11.3	7.6	3.7
FLORIDA	2,330	1,370	961	10.3	6.0	4.2
GEORGIA	2,354	1,400	954	11.1	6.6	4.5
ILLINOIS	2,753	1,478	1,275	10.9	5.9	5.1
MICHIGAN	2,588	1,949	640	10.9	8.2	2.7
NEW JERSEY	3,484	1,826	1,658	13.4	7.0	6.4
NEW YORK	3,987	1,878	2,109	14.4	6.8	7.6
NORTH CAROLINA	2,251	1,623	629	10.9	7.8	3.1
OHIO	2,503	1,401	1,102	11.1	6.2	4.9
PENNSYLVANIA	2,509	1,515	995	10.6	6.4	4.2
TEXAS	2,128	1,130	997	10.3	5.4	4.8

Source: Statistics presented in this table are based on data found in Governmental Finances: 1995-96, Bureau of Census, U.S. Department of Commerce, Washington, D.C., 1999.

Table 6. North Carolina relies more heavily on the individual income tax than the average state in the nation or the Southeast. Whereas the individual income tax makes up 29.9% of total state and local taxes in North Carolina, it makes up only 21.3% for the nation, and 16.9% in the Southeast. Most Southeastern states rely heavily on the sales and use tax, which make-up 30.5% of collections. This compares to 24.5% in the United States and 23.4% in North Carolina. On the other hand, North Carolina relies less heavily on property taxes than most states. Property taxes consists of 30.4% of state and local tax collections in the nation, 27.4% in the Southeast, and 21% in North Carolina.

TABLE 6

**PERCENTAGE DISTRIBUTION OF STATE AND LOCAL TAXES,
BY TYPE OF TAX, FOR THE UNITED STATES, SOUTHEAST,
AND NORTH CAROLINA , FOR 1995-96**

PERCENTAGE DISTRIBUTION			
REVENUE SOURCE	UNITED STATES	SOUTHEAST	NORTH CAROLINA
INDIVIDUAL INCOME	21.3	16.9	29.9
SALES AND USE	24.5	30.5	23.4
PROPERTY	30.4	27.4	21.0
CORPORATE INCOME	4.6	3.8	5.7
MOTOR FUELS	3.9	5.3	5.8
MOTOR VEHICLE LICENSE	2.0	2.1	2.2
OTHER	13.3	14.0	12.0
TOTAL TAX	100.0	100.0	100.0

Source: Statistics presented in this table are based on data found in Governmental Finances: 1995-96, Bureau of the Census, U.S. Department of Commerce, Washington, D.C., 1999.

Table 7. North Carolina relies more heavily on the individual income tax than the average state in the nation or the eleven most populated states. Whereas the individual income tax makes up 29.9% of total state and local taxes in North Carolina, it makes up only 21.3% in the nation, and 20.4% in the eleven most populated states. Most of the largest states rely heavily on the property tax, which make-up 31.8% of collections. This compares to 30.4% in the United States, and 21% in North Carolina. Dependence on sales and use tax collections are similar, with these revenue consisting of 24.5% of state and local tax collections in the nation, 24.2% in the eleven most populated states, and 23.4% in North Carolina.

TABLE 7

**PERCENTAGE DISTRIBUTION OF STATE AND LOCAL TAXES,
BY TYPE OF TAX, FOR THE UNITED STATES, ELEVEN MOST
POPULATED STATES, AND NORTH CAROLINA , FOR 1995-96**

PERCENTAGE DISTRIBUTION			
REVENUE SOURCE	UNITED STATES	ELEVEN LARGEST STATES	NORTH CAROLINA
INDIVIDUAL INCOME	21.3	20.4	29.9
SALES AND USE	24.5	24.2	23.4
PROPERTY	30.4	31.8	21.0
CORPORATE INCOME	4.6	5.1	5.7
MOTOR FUELS	3.9	3.3	5.8
MOTOR VEHICLE LICENSE	2.0	1.8	2.2
OTHER	13.3	13.4	12.0
TOTAL TAX	100.0	100.0	100.0

Source: Statistics presented in this table are based on data found in Governmental Finances: 1995-96, Bureau of the Census, U.S. Department of Commerce, Washington, D.C., 1999.

Table 8. North Carolina's per capita state and local tax burden is lower than that in the nation, but higher than that in Southeast. In 1995-96, North Carolina's per capita tax burden was \$2,251, as compared to \$2,597 in the United States, and \$2,251 in the Southeast. As a percent of personal income, North Carolina's state and local tax burden was 10.9%, as compared to 11.3% in the nation, and 10.4% in the Southeast. As is evident from the Table, North Carolina has a higher individual income and motor fuels tax burden than the average for the nation and the Southeast, while having a lower sales and use and property tax burden.

TABLE 8

**STATE AND LOCAL TAX COLLECTIONS, PER CAPITA AND AS
A PERCENT OF PERSONAL INCOME, BY TYPE OF TAX, FOR THE
UNITED STATES, SOUTHEAST, AND NORTH CAROLINA, FOR 1995-96**

REVENUE SOURCE	PER CAPITA			PERSONAL INCOME		
	UNITED STATES	SOUTH-EAST	NORTH CAROLINA	UNITED STATES	SOUTH-EAST	NORTH CAROLINA
INDIVIDUAL INCOME	554	364	673	2.4	1.8	3.2
SALES AND USE	637	657	526	2.8	3.2	2.5
PROPERTY	789	590	472	3.4	2.8	2.3
CORPORATE INCOME	121	83	128	0.5	0.4	0.6
MOTOR FUELS	101	114	130	0.4	0.6	0.6
MOTOR VEHICLE LICENSE	52	45	49	0.2	0.2	0.2
OTHER	516	427	450	2.2	2.1	2.2
TOTAL TAX	2,597	2,152	2,251	11.3	10.4	10.9

Source: Statistics presented in this table are based on data found in Governmental Finances: 1995-96, Bureau of the Census, U.S. Department of Commerce, Washington, D.C., 1999.

Table 9. North Carolina's per capita state and local tax burden is lower than that in the nation and significantly lower than the average of the eleven most populated states. In 1995-96, North Carolina's per capita tax burden was \$2,251, as compared to \$2,597 for the United States, and \$2,736 for the eleven most populated states. As a percent of personal income, North Carolina's state and local tax burden was 10.9%, as compared to 11.3% for the nation, and 11.5% for the eleven most populated states. As is evident from the Table, North Carolina has a higher individual income and motor fuels tax burden than the national and the eleven most populated states, but a lower sales and use and property tax burden.

TABLE 9

**STATE AND LOCAL TAX COLLECTIONS, PER CAPITA AND AS A PERCENT
OF PERSONAL INCOME, BY SOURCE, FOR THE UNITED STATES
AND THE ELEVEN MOST POPULATED STATES, FOR 1995-96**

REVENUE SOURCE	PER CAPITA			PERSONAL INCOME		
	UNITED STATES	ELEVEN LARGEST STATES	NORTH CAROLINA	UNITED STATES	ELEVEN LARGEST STATES	NORTH CAROLINA
INDIVIDUAL INCOME	554	553	673	2.4	2.3	3.2
SALES AND USE	637	656	526	2.8	2.8	2.5
PROPERTY	789	876	472	3.4	3.7	2.3
MOTOR FUELS	101	90	130	0.4	0.4	0.6
OTHER	516	563	450	2.2	2.4	2.2
TOTAL TAX	2,597	2,736	2,251	11.3	11.5	10.9

Source: Statistics presented in this table are based on data found in Governmental Finances: 1995-96, Bureau of the Census, U.S. Department of Commerce, Washington, D.C., 1999.